



# **ANNUAL BUDGET FOR 2019/2020 MTREF**

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**2019/20 to 2021/22**

**Medium Term Revenue and Expenditure  
Framework (MTREF)**

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## Glossary

**Adjustments Budget** – Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

**Allocations** – Money received from Provincial or National Government or other municipalities.

**AFS**- Annual Financial Statements

**Assessment Rates** - Local Government tax based on the assessed value of a property.

To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

**Budget** – The financial plan of the Municipality.

**Budget Related Policy** – Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control policy.

**Capital Expenditure** - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's Statement of Financial Performance.

**CRR** – Capital Replacement Reserve. A cash reserve set aside for future capital expenditure.

**Cash Flow Statement** – A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

**CFO** - Chief Financial Officer

**DORA** – Division of Revenue Act. Annual legislation that shows the total allocations made by National to Provincial and local government.

**Equitable Share** – A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

**EPWP** – Expanded Public Works Programme.

**FFC** – Financial and Fiscal Commission.

**Fruitless and wasteful expenditure** – Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

**GIS** – Geographic Information System.

**GFS** – Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

**GGP** – Gross Geographic Product

**GRAP** – Generally Recognised Accounting Practice. The new standard for municipal accounting and basis upon which AFS are prepared.

**IDP** – Integrated Development Plan. The main strategic planning document of the Municipality

**ISDF** – Integrated Strategic Development Framework - The 20-year framework linking technical, financial and economic planning.

**KPI's** – Key Performance Indicators. Measures of service output and/or outcome.

**MEC** – Minister in Executive Committee (Province).

**MFMA** – The Municipal Finance Management Act – No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

**MTREF** – Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous three years and current years' financial position.

**MPAC** – Municipal Public Accounts Committee.

**MSCOA** – Municipal Standard Chart of Accounts

**NERSA** – National Electricity Regulator of South Africa.

**NT** – National Treasury.

**NDPG** – Neighbourhood Development Partnership Grant.

**Net Assets** – Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or

Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

**Operating Expenditure** – Spending on the day to day expenses of the Municipality such as salaries and wages.

**R&M** – Repairs and maintenance on property, plant and equipment.

**SDBIP** – Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

**Strategic Objectives** – The main priorities of the Municipality as set out in the IDP.

Budgeted spending must contribute towards the achievement of the strategic objectives.

**SCM** – Supply Chain Management.

**Unauthorised expenditure** – Generally, spending without, or in excess of, an approved budget.

**Virement** – A transfer of budget.

**Virement Policy** - The policy that sets out the rules for budget transfers. Virements are normally allowed within a vote. Transfers between votes must be agreed by

Council through an Adjustments Budget.

**Vote** – One of the main segments into which a budget is divided. In Kgatelopele Local Municipality this means at directorate level.

**THE SPEECH OF THE MAYOR ON THE OCASSION OF THE APPROVAL OF IDP  
REVIEW 2017/18,  
THE ANNUAL BUDGET FOR 2019/20 MEDIUM TERM REVENUE AND EXPENDITURE  
FRAMEWORK,  
BUDGET POLICIES AND PROPOSED TARIFF INCREASES FOR 2019/20  
24 MAY 2019**

Honourable Councillors  
Municipal Manager  
Senior Management Team  
Officials Present  
Community members Present

Good Morning

The baton has been handed to us to protect and advance the gains we have made over the past 25 years, and ensure that we move with speed in changing the economic paradigm not only in our Municipality but throughout the country. We owe it to the community to ensure that we make meaningful changes in their lives, most importantly that we take them along as we move towards bettering the conditions under which they live. We need to close the gap between ourselves and the people we represent. It is unacceptable that even on this day and age:

- we still have councillors that do not have/hold meetings with their communities,
- we still have councillors that do not work well with their communities,
- we still have councillors that are in constant conflict with their communities,
- we still have councillors that regard themselves as above their communities,
- we still have councillors that stand against their communities and not with them.

Let this serve as a reminder that when we took the oath of office, we all committed to working in the best interest of those that voted us into office, we committed to be their voice and represent them to the best of our ability. We also committed to ensuring that we will provide regular feedback to our communities on matters relating to our functions as public representatives.

We need to appreciate and embrace inputs provided during the budget/IDP engagements in all wards. We must acknowledge the fact that ward 1 Budget/IDP engagement still need to be finalised. The municipality made the draft Budget/IDP public through different social platforms namely, at the Library, Facebook, WhatsApp & municipal website to further solicit inputs. We further engaged individually with the three mines (PPC, Finsch Diamond Mine & Idwala) to enable positive contribution to the development of Kgatelopele through credible contribution of Social Labour Plans.

Honourable Councillors, the intention with this speech is to give the State of the municipality, and lay the foundation for what is ahead of us, which is delivery of services through the implementation of projects, conducting maintenance of the infrastructure, caring for our customers and improve governance, management, stability and sustainability. Honourable Councillors, as we progress with the implementation of the adopted IDP for 2017 to 2022, it is important that we remind ourselves of the journey we have travelled this far, and the path ahead of us to keep this municipality stable and sustainable. We cannot repeat that history, but work hard in writing new history, new story, new vision and new direction. We coming from the times and era where this municipality was seen as dysfunctional.

All municipalities aspire to develop and create wealth and opportunities for its people. We had since overcome that by the upgrades of bulk water supply and sewer plant. The municipality had spent almost R82 million with R30 million spent on increase in bulk water, and R52 million spent on sewer treatment to date. Through the Integrated Infrastructure Development Master Plan, we want to build a strong municipality with reliable infrastructure that can attract investments for growth and development.

We had further observed that people are not unreasonable in their demands, they need development, tenure of land, land for self-sustenance, people need access to services, importantly, water, sanitation and electricity being key. Our youth remains unemployed and more internships and in-service training opportunities are required to provide the experience to young citizens. However, it remains a concern that most of people staying in the informal settlement areas are youth, and these born before 1976, whilst at the same time we have senior citizens who remained backyard dwellers. These senior citizens must be prioritized as we improve the housing needs register of the municipality. We need to care for the senior citizen, it is a blessing, and also ensure that we create opportunities for our youth and entrepreneurs.



On the matter of entrepreneurs, it has been an outcry of small and medium enterprises in our locality of the deprived opportunities in the procurement system of the municipality. Supported by the Preferential Procurement Policy Framework Regulations of 2017, this municipality has been setting aside tenders and quotations for designated groups to remove unfair competition between various companies in different stages of growth and development.

We have also noted weaknesses and complexities of tendering and I since instructed management to develop an SMME Support Strategy and create a SCM Advisory where SMME's will be assisted, not with pricing of goods and service but more tender compliance, completion of forms, municipal accounts, registration on CSD and referrals for project funding and business development. We are not compromising on 30% subcontracting where practical and preference will be given to designated groups as per the regulations. There are robust discussions taking place with potential partners in SMME Support.

Honourable Councillors, capital grants gazette amount to R22 686 000 (twenty-two million six hundred and eighty-six thousand) for 2019/20, R49 505 000 (forty-nine million-five hundred & five thousand) for 2020/21 and R59 839 000.00 (fifty-nine million eight hundred and thirty-nine thousand) for 2021/22. The MIG funding included in the capital grants earmarked for the construction of the new land-fill site and water & sanitation linking services. Five percent (5%) of the MIG allocation is primarily for Project Management Unit support to enable effective and credible oversight in the implementation of capital projects.

Honourable Councillors, the theme for the financial year 2019/20 is "Realisation of the 4th Industrial Revolution", it is our commitment and conviction that the capital projects implementation be labour based, of high quality and standard, delivered within budget and time frames. The capital budget for 2019/20 is R25 million. In addition, COGHSTA has confirmed a total budget of almost R20 million for housing project in our area.

There are no changes in the Budget as tabled, as well as proposed tariff increases. The tariffs applied for at NERSA are as recommended in the guideline memorandum issued by the Regulator for IBT. This will enable those who compare energy charges to do so more accurately and fairly.

The Budget is credible, relevant and funded with risks of cash flow sustainability, in 2020/21 if losses reduction, efficiencies and collections are not improved accordingly there will be major financial constraints. To this end, we are attending to this in three angles, loss reduction, revenue

enhancement and cost containment. There are quick win projects identified in all the three angles, the technical team will be engaging with management in this regard. We are going to close any loopholes in processes if there are any, we will strengthen our relationship with COGHSTA on low cost housing developments, especially with regards to the subsidy beneficiary and the occupant of the property.

We are busy with the installation of pre-paid water meters specifically for indigents, with the intention to have a full roll out to all households. We are doing this to ensure that non-indigent households pay their bills and that those that are indigent must be supported appropriately through the social package as offered by the municipality.

As I move towards concluding this state of the municipality address, let me present the proposed tariffs structure as follows, and are hereby submitted for approval:

- Decrease in Rates and taxes by 20%
- Increase Water by 5,2%
- Increase Sanitation by 5,2%
- Increase Refuse removal 5,2%
- Increase Electricity 13,07%, this increase is below the recommended tariff of 15,7% by NERSA. We are awaiting the outcomes of the application and the NERSA approval is the final approval of tariff increases to be affected from 1 July 2019.

In the 2019/20 financial year, our focus as directed by council would be as follows

- short- and long-term financial sustainability
- Revenue Enhancement
- Keep Danielskuil Clean Campaign
- Implementation of the Integrated Infrastructure Development Master Plan
- Supporting our SMME's
- Sustain Political and Administrative Stability
- Community Support Programmes
- Improve in the monitoring & evaluation of institutional performance
- Explore funding options for roads & storm water
- Staff performance and staff morale
- Professionalization of the Technical, Infrastructure & Community Services

Before I close Honourable Councillors, Treasury & SALGA has committed through the to support this municipality. A meeting is planned in the new financial year where Treasury and SALGA will be visiting us to explain more about the support programme.

I want to say to administration, let this opportunity address our challenges, and not be a theory of some other municipality to be tried here. We must be creative, engage broadly and ensure that we benefit as a municipality and the community of Kgatelopele. We expect you to take us in confidence as you engage and provide continuous feedback through the portfolio committees of the Municipality.

I therefore present the IDP Review 2017/18, the Annual Budget for 2019/20 Medium Term Revenue Expenditure Framework, the proposed tariffs increase and the attached Budget Policies the agenda.

I would like to thank the staff in my office, the office of the Municipal Manager and his team and all Councillors who made this occasion a success.

I Thank You

Presented by:

Hon. Cllr. R. Losper

Mayor

Kgatelopele Local Municipality

Date: 24 May 2019

## **1. COUNCIL RESOLUTIONS**

1. The Council of Kgatelopele Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1.1 The Final annual budget of the municipality for the financial year 2019/20 and the multi-year and single-year capital appropriations as set out in the following tables:

- 1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification)
- 1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote)
- 1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type)
- 1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as

- 1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

- 1.2.1. Budgeted Financial Position
- 1.2.2. Budgeted Cash Flows
- 1.2.3. Cash backed reserves and accumulated surplus reconciliation
- 1.2.4. Asset management
- 1.2.5. Basic service delivery measurement

2. The Council of Kgatelopele Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2019:

- 2.1. the tariffs for property rates
- 2.2. the tariffs for electricity
- 2.3. the tariffs for the supply of water
- 2.4. the tariffs for sanitation services
- 2.5. the tariffs for solid waste services

3. The Council of Kgatelopele Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2019 the tariffs for other services, as set out in to respectively.

4. To give proper effect to the municipality's annual budget, the Council of Kgatelopele Local Municipality approves:

4.1 That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

The following budget principles and guidelines directly informed the compilation of the

- The 2018/19 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2019/20 annual budget; where appropriate a zero-base approached has been to some extent used.
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of refuse removal and the continued escalation in the fuel price. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- Circular 82 of National Treasury's guidelines on cost containment, the following cost saving measures were applied:
  - Restructuring of the personnel structure to decrease consultant fees and overtime costs.
  - Integrating position to decrease employee related costs
  - No borrowing initiatives taken;
  - Principle of 0% increase in non-core general expenses unless valid motivations dictate.
  - Subsistence and travel cost
  - Catering and entertainment

In view of the aforementioned, the following table is a consolidated overview of the proposed 2019/20 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2019/2020 MTREF**

	<b>Adjustment Budget 2018/19</b>	<b>Budget year 2019/2020</b>	<b>Budget year +1 2020/2021</b>	<b>Budget year +2 2021/2122</b>
<b>Total Operating Revenue</b>	R 98 757	R 116 204	R 121 225	R 128 473
<b>Total Operating Expenditure</b>	R 98 420	R 116 027	R 120 457	R 127 860
<b>Surplus</b>	<b>R 337</b>	<b>R 178</b>	<b>R 768</b>	<b>R 613</b>
<b>Total Capital Expenditure</b>	R 51 358	R 26 686	R 49 505	R 59 839

Total operating revenue has grown by 19%, R 117 340 million for the 2019/20 financial year when compared to the 2018/19 Adjustments Budget. For the two outer years, operational revenue will increase by 4% and by 5% respectively, equating to a total revenue growth of R 29,716 million over the MTREF when compared to the 2018/19 financial year adjusted budget.

Total operating expenditure for the 2019/20 financial year has been appropriated at R 116, 027 million and translates into a budgeted surplus of R 178 822 before taking into consideration capital transfers. When compared to the 2018/19 Adjustments Budget, operational expenditure has grown by 19% in the 2019/20 budget. The surplus will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The budget for Kgatelopele Local Municipality amounts to approximately R 144,842 million. This constitutes R 22,686 million for capital expenditure and R 116,026 million for operating expenses.

#### **4. OPERATING REVENUE FRAMEWORK**

For Kgatelopele Local Municipality to continue improving the quality of life of its communities through the delivery of quality services, it is necessary to generate sufficient revenue from rates and service charges. It is also important to ensure that all billable revenue is firstly correctly charged and secondly adequately collected. The prevailing economic circumstances are adding to the difficulties in collecting the revenue due to the municipality and additional savings initiatives will need to be implemented in the MTREF to ensure the financial sustainability of the municipality. The expenditure required to address the needs of the community will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Revenue enhancement and maximizing the revenue base;
- Efficient revenue management, which aims to ensure 80.00% annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Moving towards cost reflective tariff increases for water, sanitation and refuse collection;
- Budgeting for a moderate surplus to ensure availability of cash reserves to back statutory funds and provisions.
- Fully subsidizing all indigent households in terms of the relief offered by the municipality
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA); Increased pressure to deliver and maintain services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality

The following table is a summary of the 2019/20 MTREF (classified by main revenue source).

**Table 2 Summary of revenue classified by main revenue source**

**NC086 Kgatelopele - Table A4 Budgeted Financial Performance (revenue and expenditure)**

Description	Ref	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>R thousand</b>	<b>1</b>							
<b>Revenue By Source</b>								
Property rates	2	14,966	14,966	14,966	8,012	19,990	21,989	27,643
Service charges - electricity revenue	2	28,967	29,525	32,839	15,221	34,763	36,640	35,806
Service charges - water revenue	2	7,415	7,688	7,676	5,109	9,045	9,949	10,486
Service charges - sanitation revenue	2	3,672	3,790	3,790	2,591	4,415	4,653	4,905
Service charges - refuse revenue	2	5,930	6,751	6,751	3,406	7,852	8,276	8,723
Service charges - other		–	–	–	–	–	–	–
Rental of facilities and equipment		404	423	580	55	623	664	670
Interest earned - external investments		526	898	898	752	975	780	788
Interest earned - outstanding debtors		284	275	147	68	398	786	827
Dividends received		–	–	–	–	–	–	–
Fines, penalties and forfeits		1,018	718	973	10	633	687	694
Licences and permits		124	–	50	490	457	503	508
Agency services		956	973	–	–	389	470	334
Transfers and subsidies		23,549	23,938	24,074	22,522	27,106	26,328	27,528
Other revenue	2	9,366	8,525	8,256	7,879	9,560	8,834	9,561
Gains on disposal of PPE		291	287	–	–	–	–	–
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>97,467</b>	<b>98,757</b>	<b>101,001</b>	<b>66,114</b>	<b>116,204</b>	<b>120,559</b>	<b>128,473</b>

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. The increase in revenue of 5.2% represents the tariff increase for water, sanitation and refuses revenue, with electricity increasing at 13.07%. The municipality implemented a decrease in the tariff for rates, as it will be implementing the 2019 general valuation in the 2019/20 financial year. Rates and service charge revenues comprise 52.45% of the total operating revenue mix. In the 2018/2019 financial year, revenue from rates and services charges totalled R 60,949 million, which was 64% of the total operating revenue.

The second largest source is operational grants from national and provincial government, after service charges, property rates is the third largest revenue source which has shown growth over the MTREF, followed by 'other revenue' which consists of various items such



as income received from permits and licenses, sale of land, connection fees, advertisement fees etc. Departments delivering these services have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

**Table 3 – Operational and Capital grants**

The table below illustrates the capital and operational grants the municipality will be receiving as per the DORA for 2019/2020.

GRANT TRANSFERS	PROJECTS	2019/20	2020/21	2021/22
<b>CAPITAL GRANTS</b>				
MIG	Establishment of new landfill site	8,042,000.00	8,225,000.00	8,489,000.00
RBIG	Possible new waste water& bulk water	12,644,000.00	40,000,000.00	50,000,000.00
INEP	Electrical reticulation 67 stands	2,000,000.00	1,280,000.00	1,350,000.00
		22,686,000.00	49,505,000.00	59,839,000.00
<b>OPERATIONAL GRANTS</b>	<b>PROJECTS</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
FMG	Internship salaries	540,000.00	540,000.00	540,000.00
FMG	Updating of assets register	800,000.00	720,000.00	792,000.00
FMG	Supplementary valuation roll	289,000.00	220,000.00	264,000.00
FMG	SAMRAS support	300,000.00	320,000.00	200,000.00
FMG	AFS review	300,000.00	-	-
FMG	Change of financial system	651,000.00	1,080,000.00	1,348,000.00
<b>TOTAL FMG</b>		<b>2,880,000.00</b>	<b>2,880,000.00</b>	<b>3,144,000.00</b>
EPWP	Renovation of Municipal Buildings & 1933	1,055,000.00		
LIBRARY	Remuneration of library staff	783,000.00	655,000.00	855,000.00
<b>INTERNAL FUNDING</b>	<b>PROJECTS</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Prepaid water meters	Installation	700,000.00	800,000.00	900,000.00
Numbering of cemeteries	Old and new cemeteries	80,000.00	80,000.00	80,000.00
Consolidation, subdivision, 12 stands	Deeds transfer	350,000.00	200,000.00	200,000.00
Subdivision of landfill site	Deeds transfer	350,000.00		
Furniture for 1933	Furniture for Council village	900,000.00		
Workshop extension	Extension of stores and work station for Fitte	600,000.00	500,000.00	300,000.00
Security upgrades	Access door for cashier & access control	472,510.00	300,000.00	250,000.00
TLB and Tipper Truck	Yellow fleet	2,500,000.00		

- Equitable share – R 20 774 000
- Support for council & ward committee – R 1 614 000
- Finance Management Grant – R2 880 000
- Municipal Infrastructure Grant (MIG) – R 8 042 000
- Library – R 738 000
- INEP – R 2 000 000
- Expanded Public Works Programme – R 1 055 000
- Regional Bulk Infrastructure Grant – R 12 644 000

The municipality's infrastructure projects are all grant funded, for the past 3 years the municipality has managed to spend its full MIG and WSIG allocation within the financial year it was allocated.

### **Tariff Setting and Tariff Implications of the Annual Budget**

Tariff-setting is a pivotal and strategic part of the compilation of any budget.

When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges within CPI. Municipalities should justify in their budget documentation all increases in excess of the CPI upper boundary of the South African Reserve Bank's inflation target. Circular 72 stated that, if municipalities continue to act in this manner that increase tariff above inflation, the National Treasury will have no other option but to set upper limits of tariff increases for property rates and service charges to which municipalities will have to conform.

Excessive increases are likely to be counterproductive to economic growth and development, resulting in higher levels of non-payment. The 5.2 percent increases in the average Eskom bulk purchase price as the NERSA consultation paper on tariff benchmarking is not released at the time of finalising the budget.

Other factors contributing to the rising cost include the anticipated collectively agreed upon wage increase which is above upper boundary, the excessive increase in the price of petrol and diesel as well as chemicals, spares and other materials that collectively contribute to the extent that tariffs need to be increased annually.

## 4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. In the 2018/19 financial year, the municipality started the process of compiling the general valuation roll that would replace the current 2013 general valuation roll. A large number of properties were identified in the new valuation roll as compared to the 2013 general valuation roll. Property value increased by R 300 million in the 2019 general valuation roll as compared to the 2013 general valuation roll.

As per the Municipal Property Rates Act, the municipality will be phasing in the increase in the rates to cushion the shock to the property owners. A decrease in the tariff for property rates will be implemented and phased in over 3 years. The municipality will still be able to realise an increase in the anticipated revenue from property rates with the decreased tariff as property value has increased and properties included in the 2019 general valuation that were not in the 2013 general valuation roll.

During the 2018/19 financial year, the municipality embarked in a project to updated its Spatial Development Plan and its Land Use Scheme, during this project it was identified that 220 ervens that were sold, valued in 2013, that are still under the municipality's name. This poses a challenge as the municipality cannot bill itself on property rates of those ervens. Engagements are underway to force households do the transfers of the properties. During the abovementioned project, it became evident that there is a high number of land use transgressions and building violations without any action taken, even when there is a transgression fine on the tariff list.

The following stipulations in the Property Rates Policy are highlighted:

- The first R 15 000 of the market value of a property used for residential purposes is exempted from the rate-able value (Section 17(h) of the MPRA). Additionally, the Municipality also further provide for residential properties an R 25 000 as non-ratable, therefore the total non-ratable value for residential properties is R 40 000.
- 100% rebate will be granted to registered indigents in terms of the Indigent Policy, based on the maximum usage as contained in the policy.

- The Municipality may also award a 100% rebate on the assessment rates of rate-able properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work and public benefit organizations as defined in the property rates policy of the municipality. The owner of such a property must apply to the Chief Financial Officer in the prescribed format and at the prescribed date in order to qualify for the relief.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2019/20 financial year to be implemented the 1<sup>st</sup> July 2019 is contained below.

**Table 4 Comparison of 2018/2019 levied to proposed rates for 2019/20**

KGATELOPELE LOCAL MUNICIPALITY									
FINAL TARIFFS 2019/2020									
			UNIT	KGATELOPELE					
				Rounded off to nearest cent		Rounded off to nearest cent		Rounded off to nearest cent	
				Tariff 2018/2019 (Excl VAT) R c	Tariff 2018/2019 (Inc VAT) R c	Tariff 2019/2020 (Excl VAT) R c	Tariff 2019/2020 (Inc VAT) R c		
PROPERTY RATES									
Residential properties		Stand	0.0099			0.0079			
Industrial Properties		Stand	0.0198			0.0159			
Business & Commercial Properties		Stand	0.0149			0.0119			
Farm Properties used for:			0.0000						
Agricultural purpose		Farm	0.0025			0.0003			
Business & commercial purpose		Farm	0.0317			0.0253			
Residential purpose		Farm	0.0099			0.0079			
Other purpose		Farm	0.0317			0.0253			
Farm Properties not used for any purpose		Farm	0.0317			0.0253			
State owned properties		Stand	0.0079			0.0063			
Municipal properties - Exempted		Stand	0.0000			0.0000			
Public Service Infrastructure - Exempted		Stand	0.0000			0.0000			
Privately owned towns serviced by the owner		Stand	0.0079			0.0063			
Formal & informal Settlements		Stand	0.0000			0.0000			
Communal Land (S1 Communal Land Right Act 2004)		Stand	0.0000			0.0000			
State Trust Land		Stand	0.0000			0.0000			
Properties acquired through Provision of Land Assistance Act 126			0.0000			0.0000			
of 1993, or Restitution of Land Rights Act 22 of 1994 which			0.0000			0.0000			
subject to the communal Property Associations Act 28 of			0.0000			0.0000			
Listed Protected Areas - Exempted		Stand	0.0000			0.0000			
Properties on which National Monuments are		Stand	0.0000			0.0000			
Proclaimed - Exempted on approval of application									
Properties owned by Public Benefit Organisations used		Stand	0.0000			0.0000			
for benefit of listed in the 9th schedule to income tax act			0.0000			0.0000			
Blocks of Flats			0.0099			0.0079			
Mining			0.0198			0.0159			
Churches - Exempted			0.0000			0.0000			
Small Holdings		Stand	0.0079			0.0063			

With the implementation of the new General Valuation Roll on the 1<sup>st</sup> July 2019, there was a substantial increase in the number of properties and property value since the last General Valuation Roll done in 2013. The municipality deemed it fit to decrease rates to reduce the shock factor for the rate payers. Which resulted in a decrease in the tariff for all rate-able property categories at 20% excluding farms for agricultural purposes, which decreases with 825%, consideration has been given to the drought in the municipal area has been experiencing since 2013 that has affected the productivity of the farmers that produce perishables.

#### **4.2 Sale of Water and Impact of Tariff Increases**

Parts of South Africa has been declared disaster areas due to drought, with water being a scarce resource, Kgatelopele Local Municipality strives in trying to curb water losses and ensuring there is sufficient water supply for its residence. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition, National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective, which Kgatelopele Local Municipality is working towards. South Africa is in the midst of its worst drought in at least two decades, threatening agricultural output and pushing up food prices. In the 2016/17 financial year, Kgatelopele Local Municipality concluded the bulk water project that for the construction of a water reservoir, which supplies water to the Danielskuil area. However, maintenance of infrastructure and cost-reflective tariffs will ensure that the supply is managed in future to ensure sustainability. With the introduction of prepaid meters, community members will be more aware of their water usage and reduce excessive water usage and losses.

Proposed tariff increases as from 1 July 2019 are indicated in Table 5. The 6 kℓ free water per 30-day period has since 2014 only been granted to registered indigents.

A summary of the proposed tariffs for households (residential) are as follows:

**Table 5 Proposed Water Tariffs**

KGATELOPELE LOCAL MUNICIPALITY							
FINAL TARIFFS 2019/2020							
		UNIT	KGATELOPELE				
			Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	
			Tariff 2018/2019 (Excl VAT) R c	Tariff 2018/2019 (Inc VAT) R c	Tariff 2019/2020 (Excl VAT) R c	Tariff 2019/2020 (Inc VAT) R c	
<b>WATER</b>							
<b>Domestic households</b>							
<u>Tariffs Applied for:</u>							
Block 1 (0-6 kl) 6	1+	kL	6.8224	7.85	7.1771	8.25	
Block 2 (7.-25 kl) 18	1 +	kL	7.6448	8.79	8.0424	9.25	
Block 3 (26 - 50 kl) 24	1+	kL	8.7774	10.09	9.2338	10.62	
Block 4 (>51 kl)	1+	kL	10.4358	12.00	10.9785	12.63	
Basic Charge (inclusive of basic charge per borehole)		Stand	85.2797	98.07	89.7142	103.17	
Basic Charge (Indigents) (0-6 kl)	0 - 6 kL Free	Stand					
Basic Charge (Vacant)		Stand	255.8525	294.23	269.1568	309.53	
<b>Business</b>							
<u>Tariffs Applied for:</u>							
Block 1 (0-6 kl)	1+	kL	8.5347	9.81	8.9785	10.33	
Block 2 (7.-25 kl)	1 +	kL	9.5594	10.99	10.0565	11.56	
Block 3 (26 - 50 kl)	1+	kL	10.9616	12.61	11.5316	13.26	
Block 4 (>51 kl)	1+	kL	13.0380	14.99	13.7160	15.77	
Basic Charge (inclusive of basic charge per borehole)		Stand	255.8525	294.23	269.1568	309.53	
Basic Charge (Vacant)		Stand	767.5412	882.67	807.4534	928.57	
<b>Industrial</b>							
<u>Tariffs Applied for:</u>							
Block 1 (0-6 kl)		kL	10.2470	11.78	10.7799	12.40	
Block 2 (7.-25 kl)		kL	11.4605	13.18	12.0565	13.86	
Block 3 (26 - 50 kl)		kL	13.1594	15.13	13.8436	15.92	
Block 4 (>51 kl)		kL	15.6537	18.00	16.4677	18.94	
Basic Charge (inclusive of basic charge per borehole)		Stand	255.8525	294.23	269.1568	309.53	
Basic Charge (Vacant)		Stand	767.5440	882.68	807.4563	928.57	

The tariff structure of the 2019/20 financial year has not been changed

In the fight to assist our indigents to better manage their accounts, in 2018/19, the municipality introduced a conversion of conventional water meters to prepaid water meters. Due to the cost of these prepaid meters, the municipality had to phase it out over a number of years. Indigents will not be disadvantaged by the prepaid water meter as the tap will not run dry at any point. Prepaid water meters will be able to detect when there is a leakage and will assist curb water losses.

## **Sale of Electricity and Impact of Tariff Increases**

NERSA announced the revised bulk electricity pricing structure, with Eskom being awarded an increase of 15.67% for 2019/20 financial year. The increase guideline for municipalities to levy to consumers has not been finalised, however an increase of 13.07% has been used in the assumption for electricity tariff increase for the budget for implementation on the 1<sup>st</sup> July 2019 in the interim. Considering the previous requests from Eskom for increases and the current series of loadshedding fuelled by the struggles the electricity generating company has been experiencing. The municipality is currently rendering the service at a loss due to the wage bill, general expenditure and increased maintenance and losses incurred due to theft and the aging infrastructure in the department. The increase awarded to Eskom by Nersa will further place immense pressure on the budget and the affordability of the service for the consumers and the municipality. Alternative way to decrease the dependency on Eskom generated energy has to be explored in the coming financial years to decrease this burden. In 2016, one of the solar parks in the area provided the municipality with 50 solar panel and battery to assist indigent households, this has had tremendous impact on those households, however, the population size for the assessment is very small to assess the impact it will have on the community as a whole and the municipality.

Registered indigents as well as sub-economic consumers will again be granted 50 kWh per month free of charge.

The following table shows the impact of the proposed increases in electricity tariffs for domestic consumers:

**Table 6 Comparison between current electricity charges and increases (Domestic)**

KGATELOPELE LOCAL MUNICIPALITY											
FINAL TARIFFS 2019/2020											
			UNIT	KGATELOPELE							
				Rounded off to nearest cent		Rounded off to nearest cent		Rounded off to nearest cent		Rounded off to nearest cent	
				Tariff 2018/2019 (Excl VAT)	R c	Tariff 2018/2019 (Inc VAT)	R c	Tariff 2019/2020 (Excl VAT)	R c	Tariff 2019/2020 (Inc VAT)	R c
ELECTRICITY											
Domestic Households (Prepaid)											
Tariffs Applied for:											
Block 1 (0-50 kWh)			1+	kWh	0.9089	1.05	1.0277	1.18			
Block 2 (51-350 kWh)			1+	kWh	1.1678	1.34	1.3205	1.52			
Block 3 (351-600 kWh)			1+	kWh	1.6551	1.90	1.8714	2.15			
Block 4 (>600 kWh)			1+	kWh	1.9441	2.24	2.1981	2.53			
Basic Charges				Per Meter	17.5544	20.19	19.8487	22.83			
Basic Charges (Indigent) - Only for first prepaid meter			0 kWh free unit	Per Meter	FREE	FREE	FREE	FREE			
Basic Charges (Indigent) - Second, third ,etc. prepaid me			No free units	Per Meter	17.5609	20.20	19.9615	22.96			
Domestic Households (Conventional)											
Tariffs Applied for:											
Block 1 (0-50 kWh)			1+	kWh	0.9089	1.05	1.0277	1.18			
Block 2 (51-350 kWh)			1+	kWh	1.1678	1.34	1.3205	1.52			
Block 3 (351-600 kWh)			1+	kWh	1.6551	1.90	1.8714	2.15			
Block 4 (>600 kWh)			1+	kWh	1.9441	2.24	2.1981	2.53			
Basic Charge				Stand	237.6574	273.31	268.7192	309.03			
Basic Charge on Vacant Stands				Stand	330.1722	379.70	373.3257	429.32			

The municipality adopted a zero tolerance for businesses debt in relation to electricity. All electricity consumed by businesses should be paid over per month, this includes businesses that have payment arrangements on their arrears.

The following table shows the impact of the proposed increases in electricity tariffs for businesses, industrial, school:

KGATELOPELE LOCAL MUNICIPALITY							
FINAL TARIFFS 2019/2020							
		UNIT	KGATELOPELE				
			Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	
			Tariff 2018/2019 (Excl VAT) R c	Tariff 2018/2019 (Inc VAT) R c	Tariff 2019/2020 (Excl VAT) R c	Tariff 2019/2020 (Inc VAT) R c	
ELECTRICITY							
Business (Commercial)							
Business Prepaid Single Phase	1 +	kWh	2.0229	2.33	2.2873	2.63	
Business Prepaid Three Phase	1+	kWh	2.0229	2.33	2.2873	2.63	
Business Conventional Single Phase	1+	kWh	2.0229	2.33	2.2873	2.63	
Business Conventional Three Phase	1+	kWh	2.0229	2.33	2.2873	2.63	
Basic charge Conventional		Stand	263.6038	303.14	298.0568	342.77	
Basic charge Prepaid		Per Meter	263.6038	303.14	298.0568	342.77	
Basic Charge on Vacant Stands		Stand	775.6224	891.97	876.9963	1,008.55	
Industrial							
Energy	1 +	kWh	1.7733	2.04	2.0051	2.31	
Demand KVA Meters (per KVA)	1 +	KVA	162.6429	187.04	183.9003	211.49	
Basic Charge Conventional & Prepaid		Stand	560.7806	644.90	634.0746	729.19	
Basic Charge on Vacant Stands		Stand	775.6224	891.97	876.9963	1,008.55	
Schools							
Energy	1 +	kWh	1.6532	1.90	1.8693	2.15	
Basic Charge Conventional		Stand	237.6574	273.31	268.7192	309.03	
Basic Charge Prepaid		Per Meter	236.2444	271.68	267.1215	307.19	



The stepped tariff for electricity as previously proposed by NERSA has continued. Tariffs have been adjusted to 13.07%, for units' consumption across the different brackets of the sliding scale. The municipality will maintain the current stepped structure for the electricity tariffs. In the 2020/2021 financial year the municipality will be changing the structure and make provision for winter and summer tariffs.

The challenge regarding the inadequate electricity bulk capacity in the Kgatelopele Local Municipality area and the impact on service delivery and development still persists and is a focus area the municipality is working on addressing. In the 2018/19 financial year the municipality started the process of starting a project to increase the current bulk supply from Eskom by upgrading from 5NMD to 10NMD. After deliberations with the energy producer the cost of this project has increased substantially as compared to the initial cost submitted. Current grant allocation from the Integrated National Energy Programme grant only covers less than 10% of the cost to complete the project, which Eskom has requested upfront before commencing with the project. Currently the municipality is using the 5NMD it has completely, the municipality will incur penalties if the electricity capacity is not increased during the winter season and when their housing project starts. Provision for the possible increase in penalties and finance charges has been made in the 2019/20 Final budget.

### **Sanitation and Impact of Tariff Increases**

A tariff increase of 5.2% for sanitation is proposed from 1<sup>st</sup> July 2019.

This is based on tariff increases related to inflation increases as mentioned earlier in the budget. The municipality embarked on capital project to upgrade the sewage system in the 2016/2017 financial year which we anticipate to conclude by the end of the 2018/19 financial year, through grant funding. This will ensure the municipality improves on the management of the oxidation ponds through the additional capacity the new ponds and reducing the number of septic tanks that need suction on a regular basis.

With the upgraded and extended oxidation pond, the new municipality will have to review its current tariff structure.

The following factors are being considered in developing a cost reflective tariff:

- The percentage water discharged during the process;
- Differential tariff that will ensure that our tariff is favourable and fair to all consumers

Free sanitation will be applicable to registered indigents. The following table compares the current and proposed tariffs:

**Table 7 Comparison between current sanitation charges and increases**

KGATELOPELE LOCAL MUNICIPALITY						
FINAL TARIFFS 2019/2020						
		UNIT	KGATELOPELE			
			Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent	Rounded off to nearest cent
			Tariff 2018/2019 (Excl VAT) R c	Tariff 2018/2019 (Inc VAT) R c	Tariff 2019/2020 (Excl VAT) R c	Tariff 2019/2020 (Inc VAT) R c
SEWERAGE						
Residential / Government / Churches / PBO		Point	135.7733	156.14	142.8335	164.26
Flats		Unit	135.7733	156.14	142.8335	164.26
Business / Guesthouses / Hotels / Industrial	The Greater of Per 100m²	100m²	232.3499	267.20	244.4321	281.10
	or	Point	232.3499	267.20	244.4321	281.10
	or	Unit	232.3499	267.20	244.4321	281.10
Septic Tank		per month	135.7733	156.14	142.8335	164.26
		ad-hoc	428.7579	493.07	451.0533	518.71
Sewerage Connection New		Connection	COST + 15 %	COST + 15 %	COST + 15 %	COST + 15 %

### Waste Removal and Impact of Tariff Increases

Services relevant to refuse removal, refuse dumps and solid waste disposal mechanisms must comply with stringent legislative requirements such as the National Environmental Management: Waste Act, No 59 of 2008. This service will receive further revision of the solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The current landfill site has reached its capacity in terms of servicing the municipality, the municipality has started the process of establishing a new landfill site to accommodate the current demand.

An increase of 5.2% in the waste removal tariff is proposed from 1 July 2019. Higher increases are not viable at this stage owing to the increases implemented in preceding financial years to ensure sustainability of this service. In the 2017/18 financial year the municipality insourced the waste collection function by establishing a unit and procuring refuse truck to do the collection of domestic waste. The management of the landfill site is still outsourced until the municipality builds adequate capacity to render that service itself after the new landfill site is established.

The following table compares current and proposed amounts payable from 1 July 2019:

**Table 8 Comparison between current waste removal fees and increases**

KGATELOPELE LOCAL MUNICIPALITY								
FINAL TARIFFS 2019/2020								
		UNIT	KGATELOPELE					
			Rounded off to nearest cent		Rounded off to nearest cent		Rounded off to nearest cent	
			Tariff 2018/2019 (Excl VAT) R c	Tariff 2018/2019 (Inc VAT) R c	Tariff 2019/2020 (Excl VAT) R c	Tariff 2019/2020 (Inc VAT) R c		
REFUSE REMOVAL								
Basic Charge Residential		Stand	115.9399	133.33	121.9688	140.26		
Basic Charge Residential (Indigent)		Stand	0.0000	-	0.0000	-		
Basic Charge Business - unit - low capacity and high		Stand	244.7695	281.48	257.4975	296.12		
Basic Charge Industrial		Stand	244.7695	281.48	257.4975	296.12		
Basic Charge Government		Stand	244.7695	281.48	257.4975	296.12		
Garden Refuse Removal		load	143.3205	164.82	150.7732	173.39		
Building Rubble		per ton	426.7354	490.75	448.9257	516.26		
Illegal Dumping			337.0738	387.63	354.6016	407.79		
Basic Charge Residential (Vacant)		Stand	347.8332	400.01	365.9205	420.81		
Basic Charge Business and Other (Vacant)		Stand	734.2950	844.44	772.4784	888.35		
Churches - exempt			0.0000	-				

## 5. OPERATING EXPENDITURE FRAMEWORK

The Municipality's expenditure framework for the 2019/20 budget and MTREF is informed by the following:

- Balanced budget constraint (cash operating expenditure should not exceed cash operating revenue) unless there are sound reasons for utilising existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the MTREF as informed by Section 18 and 19 of the MFMA;
- Introduction of integrated posts to reduce the personnel budget
- Reducing expenditure on non-core programmes;
- Implementing operational gains and efficiencies;
- Strict adherences to the principle of no project plan no budget. If there is no business plan no funding allocation will be made; and
- Taking cognisance of cost containment guidelines and assessing the status of current measures included in the Cost Containment Strategy of the municipality.

The following table is a high-level summary of the 2019/20 budget and MTREF (classified per main type of operating expenditure):

**Table 9 Summary of operating expenditure by functional classification item**

Description  R thousand	Ref	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>Expenditure By Type</b>	-							
Employee related costs	2	31,510	31,744	33,499	23,230	36,113	38,587	46,412
Remuneration of councillors		2,540	2,323	2,602	1,889	2,604	2,735	2,884
Debt impairment	3	5,774	5,774	5,774	-	5,832	6,146	7,376
Depreciation & asset impairment	2	10,276	10,276	10,276	-	11,096	10,421	10,693
Finance charges		-	805	805	-	813	488	502
Bulk purchases	2	23,190	22,089	22,089	15,458	26,649	28,088	27,149
Other materials	8	5,027	223	193	100	285	288	291
Contracted services		5,099	13,508	13,959	9,628	13,957	13,788	12,295
Transfers and subsidies		-	-	-	-	-	-	-
Other expenditure	4, 5	13,903	11,677	12,046	8,425	18,678	19,267	20,259
Loss on disposal of PPE		-	-	-	-	-	-	-
<b>Total Expenditure</b>		<b>97,319</b>	<b>98,420</b>	<b>101,243</b>	<b>58,729</b>	<b>116,026</b>	<b>119,806</b>	<b>127,860</b>

The budgeted allocation for employee related costs and remuneration of councillors for the 2019/20 financial year totals R 38 717 million which equals 31% of the total operating expenditure and within the NT norm of 25 – 40 per cent. A three-year collective SALGBC salary agreement that came into effect on 1 July 2018 will be ending June 2021. This salary determination and annual notch increases for qualifying personnel have been factored into the budget for the 2019/20 financial year at 6.5%.

As part of the Municipality's cost reprioritisation and cash management strategy vacancies have been significantly rationalised downwards. In order to ensure economic viability and to not overstretch the already limited financial resources, cash management this percentage of employee related cost in relation to total budget need to be maintained at less than 40%. This had forced management to relook and develop a Human Resource Strategy, this also included looking at an approach to integrate job descriptions to customise the positions for a municipality this size and catering for its unique needs. Only the positions that are critical for service delivery and effective and efficient administration must be budgeted for the 2019/20 financial year. These positions are in the technical and cooperate services mainly where work is currently done by consultants or service providers in order to build internally capacity. The latter is in line with National Treasury advocacy on

the use of external service providers and the cost containment guidelines and strategy. During the 2018/19 financial year all senior management position were filled with performance plans.

New regulations have been promulgated, which regulations provide for the Minister of Co-operative Governance to determine the total remuneration packages payable to any new employees to the posts of Municipal Manager and Section 57 Employees (Directors), with effect from 1 July 2014. Remuneration of section 57 managers has been budgeted in accordance to the gazette number 42023 issued 8<sup>th</sup> November 2018. The cost associated with the remuneration of councillors is determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). Remuneration for councillors is as per the gazette number 42134 issued 21<sup>st</sup> December 2018.

The provision of debt impairment and write-off of bad debts for consumer accounts has been determined based on the Debt Write-off Policy of the Municipality. For the 2019/20 financial year this amount equates to R 5 831 544. A proposal was submitted to council and the council committees for reviewal and approval for a write off for irrecoverable debt by indigents. An incentive approach was tabled to council as a motivation to encourage indigent households to maintain their accounts and provide relief on the indigent households. A 30% of the indigent debt is written off at the end of the financial year, the second phase of the write off will be 20% on condition the indigent household pays their arrangement amount of R 200.00 every month without defaulting for a full year, only than will they qualify for the second write-off. This approach will motivate households to pay their municipal accounts and have the municipality meet them half way as most of the debt has reached this stage due to lack of credit control in the past.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate of asset consumption. Budget appropriations in this regard total R 11 096 150 for the 2019/20 financial year and equates to 10% of the total operating expenditure.

The budget includes a total of R 813 003 in relation to finance charges for the 2019/2020 financial year. The municipality currently has a payment arrangement with Eskom which it has honoured since September 2017 when the payment arrangement started. This arrangement includes interest rates on the account which can only be written off at the end

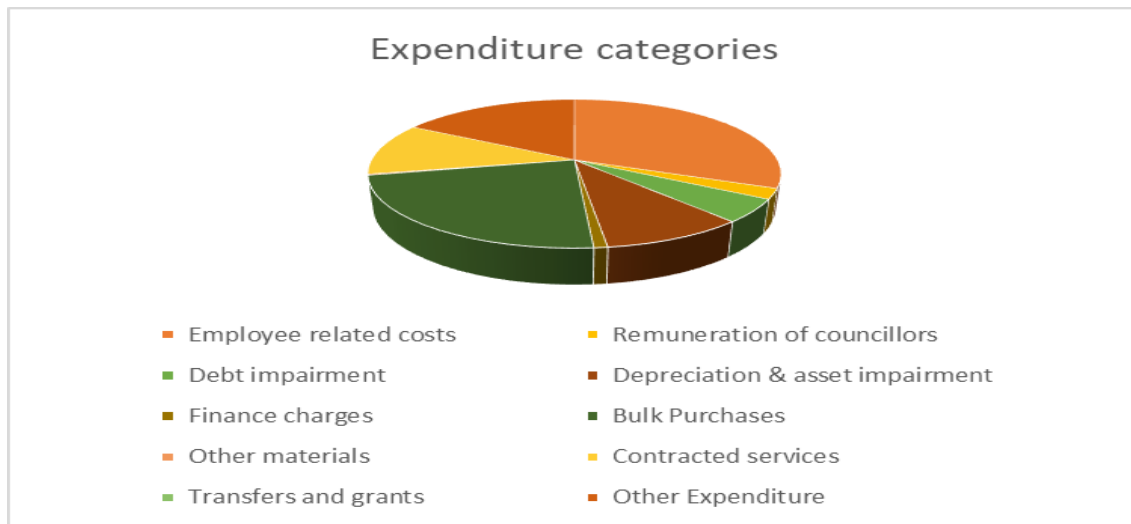
of the 3-year arrangement ending August 2020. The municipality does not have any current borrowings and does not plan on taking on any loan for the 2019/2020 financial year.

Bulk purchases equate to 21% of the total expenditure and are directly informed by the purchase of electricity from Eskom and the increase on bulk supply based on the guideline for NERSA increases. The expenditures accounts for distribution losses.

Contracted services comprise of amongst others the purchase of materials and spares for maintenance and actual repair and maintenance done by a service provider. In line with Kgatelopele Local Municipality's repairs and maintenance priorities this group of expenditure has been prioritized to ensure sustainability of Kgatelopele Local Municipality's infrastructure. Sewerage section remains the highest contributor to repair and maintenance expenditure, with the upgrading of the sewerage network this should decrease the cost of repairs and maintenance in that section. Contracted services also include expenditure relating to the provision of services by means of the appointment of service providers where the necessary in-house skills are not available or have not yet been adequately developed. Certain functions also require the contracting of specialist knowledge contracted from time to time due to the fact that the municipality cannot afford to employ experts on a full-time basis. Contracted services have been identified as an area for the municipality to implement efficiencies. As part of the compilation of the 2019/20 MTREF this group of expenditure was critically evaluated and operational efficiencies are being enforced. In the 2019/20 financial year, this group of expenditure is budgeted at a total of R 13 957 260, which equate to 11% of total operating budget, which is less than the previous financial year.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. The decrease in other expenditure due to the implementation of cost containment, in line with circular 82, other expenditure amounts to 17% % for the 2019/20 financial year.

The following graph gives a breakdown of the main expenditure categories for the 2019/20 financial year.



### **2.1 Priority given to repairs and maintenance**

Aligned to the priority being given to preserving and maintaining the Municipality's current infrastructure, the 2018/19 budget and MTREF provide for continuing in the area of asset maintenance, as informed by the asset maintenance strategy and repairs and maintenance plan of the Municipality.

In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services. Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance. Since the implementation of mSCOA, expenditure is recorded through its nature and not function. Repairs and maintenance form part of contracted services and general expenditure.

### **2.2 Free Basic Services: Basic Social Services Package**

The social package assists households that are indigent/poor or face other circumstances that limit their ability to pay for services. To receive these free/subsidised services the households are required to register in terms of the Municipality's Indigent Policy. The budgeted indigent households for 2019/20 remains at an estimate of 1500 and will be reviewed monthly.

The municipality budgeted the following for the indigent relief:

- Water – R 883 324.63
- Electricity – R 985 260.53
- Refuse – R 2 502 819.60
- Sanitation – R 2 930 922.98

The cost of the social package of the registered indigent households is fully covered by the local government equitable share received in terms of the annual Division of Revenue Act and that portion relating to a specific service has been apportioned as revenue to that specific service.

The following is an extract from NT Budget Circular 85:

*“The change in the treatment of cost of free basic services indicates that municipalities must not disclose the support to indigents on table SA21 “Transfers and grants.”*

## 6. CAPITAL EXPENDITURE

The following table provides a breakdown of budgeted capital expenditure by vote and functional area:

**Table 11 2019/20 Medium-term capital budget per vote**

NC086 Kgatelopele - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding

Vote Description	Ref	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand	1							
<b>Capital expenditure - Vote</b>								
<b>Multi-year expenditure to be appropriated</b>	2							
Vote 1 - Executive And Council		-	-	-	-	-	-	-
Vote 2 - Corporate Services		-	-	-	-	-	-	-
Vote 3 - Community And Social Services		-	-	-	-	-	-	-
Vote 4 - Financial Services		700	700	700	4	900	-	-
Vote 5 - Technical Services		-	2,505	2,505	19,708	20,686	48,225	58,489
<b>Capital multi-year expenditure sub-total</b>	7	<b>700</b>	<b>3,205</b>	<b>3,205</b>	<b>19,712</b>	<b>21,586</b>	<b>48,225</b>	<b>58,489</b>
<b>Single-year expenditure to be appropriated</b>	2							
Vote 1 - Executive And Council		500	-	-	-	-	-	-
Vote 2 - Corporate Services		-	-	-	-	473	-	-
Vote 3 - Community And Social Services		-	-	-	-	-	-	-
Vote 4 - Financial Services		-	-	-	(24,880)	900	-	-
Vote 5 - Technical Services		16,075	48,153	48,153	5,120	2,600	1,280	1,350
Vote 6 - Traffic Services		-	-	-	-	-	-	-
<b>Capital single-year expenditure sub-total</b>		<b>16,575</b>	<b>48,153</b>	<b>48,153</b>	<b>(19,760)</b>	<b>3,973</b>	<b>1,280</b>	<b>1,350</b>
<b>Total Capital Expenditure - Vote</b>		<b>17,275</b>	<b>51,359</b>	<b>51,359</b>	<b>(47)</b>	<b>25,559</b>	<b>49,505</b>	<b>59,839</b>



For 2019/20 an amount of R 25,559 million has been appropriated for the development of infrastructure which represents 91% of the total capital budget of R 28,214 million. In the outer years this amount totals R 49,505million and R 59,839, respectively for each of the outer financial years.

SA34a, b, c & e provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class. Some of the salient projects to be undertaken during 2018/19 includes:

1. Establishment of solid waste site
2. Reticulation of 67 stands
3. Conversion of conventional water meters to prepaid meters

### ***3.2 Future operational cost of new infrastructure***

Furthermore, a long-term financial plan implementation policy has been developed to encompass costs over the long term. It needs to be noted that as part of the 2019/20 MTREF, this expenditure has been factored into the two outer years of the operational budget.

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## ANNUAL BUDGET TABLES

The following twenty pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2019/20 annual budget and MTREF to be approved and/or noted by the Council. Each table is accompanied by explanatory notes on the facing page.

**Table 12 MBRR Table A1 - Budget Summary**

**NC086 Kgatelopele - Table A1 Budget Su**

Description  R thousands	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>Financial Performance</b>							
Property rates	14,966	14,966	14,966	8,012	19,990	21,989	27,643
Service charges	45,984	47,755	51,056	26,326	56,075	59,519	59,920
Investment revenue	526	898	898	752	975	780	788
Transfers recognised - operational	23,549	23,938	24,074	22,522	27,106	26,328	27,528
Other own revenue	12,442	11,200	10,006	8,502	12,059	11,944	12,595
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>97,467</b>	<b>98,757</b>	<b>101,001</b>	<b>66,114</b>	<b>116,204</b>	<b>120,559</b>	<b>128,473</b>
Employee costs	31,510	31,744	33,499	23,230	36,113	38,587	46,412
Remuneration of councillors	2,540	2,323	2,602	1,889	2,604	2,735	2,884
Depreciation & asset impairment	10,276	10,276	10,276	–	11,096	10,421	10,693
Finance charges	–	805	805	–	813	488	502
Materials and bulk purchases	28,217	22,312	22,282	15,558	26,934	28,375	27,440
Transfers and grants	–	–	–	–	–	–	–
Other expenditure	24,776	30,959	31,779	18,052	38,467	39,201	39,930
<b>Total Expenditure</b>	<b>97,319</b>	<b>98,420</b>	<b>101,243</b>	<b>58,729</b>	<b>116,026</b>	<b>119,806</b>	<b>127,860</b>
<b>Surplus/(Deficit)</b>	<b>148</b>	<b>337</b>	<b>(242)</b>	<b>7,384</b>	<b>178</b>	<b>753</b>	<b>613</b>
Transfers and subsidies - capital (monetary alloc	15,675	50,659	50,659	26,840	22,686	49,505	59,839
Contributions recognised - capital & contributed a	–	–	–	–	–	–	–
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>15,823</b>	<b>50,996</b>	<b>50,416</b>	<b>34,225</b>	<b>22,864</b>	<b>50,258</b>	<b>60,452</b>
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–
<b>Surplus/(Deficit) for the year</b>	<b>15,823</b>	<b>50,996</b>	<b>50,416</b>	<b>34,225</b>	<b>22,864</b>	<b>50,258</b>	<b>60,452</b>
<b>Capital expenditure &amp; funds sources</b>							
<b>Capital expenditure</b>	<b>17,275</b>	<b>51,359</b>	<b>51,359</b>	<b>(47)</b>	<b>28,214</b>	<b>49,505</b>	<b>9,839</b>
Transfers recognised - capital	15,675	50,659	50,659	(52)	22,686	49,505	9,839
Public contributions & donations	–	–	–	–	–	–	–
Borrowing	–	–	–	–	–	–	–
Internally generated funds	700	700	700	(2)	5,528	–	–
<b>Total sources of capital funds</b>	<b>16,375</b>	<b>51,359</b>	<b>51,359</b>	<b>(53)</b>	<b>28,214</b>	<b>49,505</b>	<b>9,839</b>

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and

funding compliance, as well as the municipality's service delivery and commitment to eliminating basic service delivery backlogs.

3. Financial management reforms emphasise the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
  - a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
  - b. Capital expenditure is balanced by capital funding sources, of which
    - i. Transfers recognised is reflected on the Financial Performance Budget;
    - ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
    - iii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive and stable indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that the cash increases over the MTREF.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase.

**Table 13 MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by functional classification)**

**Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by functional classification) - mSCOA – Function/Sub Function**

**NC086 Kgatelopele - Table A2 Budgeted Financial Performance (revenue and expenditure by functional classification)**

Functional Classification Description  R thousand	Ref	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b><u>Revenue - Functional</u></b>								
<b><i>Governance and administration</i></b>		<b>39,216</b>	<b>47,322</b>	<b>40,806</b>	<b>40,806</b>	<b>57,141</b>	<b>58,382</b>	<b>66,558</b>
Executive and council		–	140	170	170	2,669	1,689	1,760
Finance and administration		39,216	47,182	40,636	40,636	54,472	56,693	64,798
Internal audit		–	–	–	–	–	–	–
<b><i>Community and public safety</i></b>		<b>816</b>	<b>1,337</b>	<b>770</b>	<b>770</b>	<b>775</b>	<b>775</b>	<b>847</b>
Community and social services		816	694	698	698	776	776	848
Sport and recreation		–	643	71	71	(2)	(2)	(2)
Public safety		–	–	–	–	–	–	–
Housing		–	–	–	–	–	–	–
Health		–	–	–	–	–	–	–
<b><i>Economic and environmental services</i></b>		<b>2,751</b>	<b>1,142</b>	<b>1,665</b>	<b>1,665</b>	<b>1,655</b>	<b>1,918</b>	<b>2,079</b>
Planning and development		20	(25)	–	–	170	285	235
Road transport		2,730	1,167	1,665	1,665	1,485	1,632	1,845
Environmental protection		–	–	–	–	–	–	–
<b><i>Trading services</i></b>		<b>61,573</b>	<b>30,560</b>	<b>98,712</b>	<b>98,712</b>	<b>79,152</b>	<b>104,200</b>	<b>117,638</b>
Energy sources		30,654	26,474	32,435	32,435	36,888	38,492	40,741
Water management		11,513	2,415	12,725	12,725	21,689	49,533	60,029
Waste water management		15,912	(4,260)	44,286	44,286	4,536	4,796	5,055
Waste management		3,495	5,930	9,266	9,266	16,040	11,379	11,813
<b><i>Other</i></b>	4	–	–	–	–	–	–	–
<b>Total Revenue - Functional</b>	2	<b>104,356</b>	<b>80,360</b>	<b>141,953</b>	<b>141,953</b>	<b>138,723</b>	<b>165,274</b>	<b>187,122</b>
<b><u>Expenditure - Functional</u></b>	-							
<b><i>Governance and administration</i></b>		<b>20,342</b>	<b>36,457</b>	<b>38,855</b>	<b>38,855</b>	<b>38,945</b>	<b>41,774</b>	<b>46,559</b>
Executive and council		6,145	8,560	6,693	6,693	8,179	8,620	9,059
Finance and administration		14,021	27,632	31,952	31,952	29,728	32,046	36,317
Internal audit		176	265	210	210	1,038	1,108	1,182
<b><i>Community and public safety</i></b>		<b>5,795</b>	<b>7,872</b>	<b>10,484</b>	<b>10,484</b>	<b>10,653</b>	<b>12,903</b>	<b>12,691</b>
Community and social services		5,041	3,803	2,800	2,800	6,485	6,933	7,662
Sport and recreation		754	4,069	7,684	7,684	4,168	5,970	5,029
Public safety		–	–	–	–	–	–	–
Housing		–	–	–	–	–	–	–
Health		–	–	–	–	–	–	–

<b>Economic and environmental services</b>		<b>4,557</b>	<b>1,909</b>	<b>1,861</b>	<b>1,861</b>	<b>5,170</b>	<b>4,757</b>	<b>5,041</b>
Planning and development		305	347	269	269	1,868	1,638	1,773
Road transport		4,252	1,562	1,593	1,593	3,302	3,119	3,269
Environmental protection		–	–	–	–	–	–	–
<b>Trading services</b>		<b>34,853</b>	<b>50,074</b>	<b>48,215</b>	<b>48,215</b>	<b>63,634</b>	<b>64,447</b>	<b>69,480</b>
Energy sources		22,039	31,579	30,362	30,362	36,007	36,891	38,790
Water management		8,209	6,197	5,743	5,743	10,367	9,161	9,697
Waste water management		3,174	6,190	6,133	6,133	9,126	9,776	11,870
Waste management		1,431	6,107	5,976	5,976	8,134	8,619	9,123
<b>Other</b>	<b>4</b>	<b>72</b>	<b>587</b>	<b>289</b>	<b>289</b>	<b>48</b>	<b>51</b>	<b>53</b>
<b>Total Expenditure - Functional</b>	<b>3</b>	<b>65,620</b>	<b>96,899</b>	<b>99,704</b>	<b>99,704</b>	<b>118,450</b>	<b>123,932</b>	<b>133,825</b>
<b>Surplus/(Deficit) for the year</b>		<b>38,737</b>	<b>(16,538)</b>	<b>42,249</b>	<b>42,249</b>	<b>20,273</b>	<b>41,341</b>	<b>53,297</b>

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per functional classification. The modified GFS functional classification, now Function/Sub Function, divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised: capital) and so does not balance to the operating revenue shown on Table A4.

**Table 14 MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)**

**NC086 Kgatelopele - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)**

Vote Description	Ref	2017/18	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>R thousand</b>								
<b>Revenue by Vote</b>	<b>1</b>							
Vote 1 - Executive And Council		–	140	170	170	2,739	1,759	1,830
Vote 2 - Corporate Services		(12)	(49)	(69)	(69)	(150)	(165)	(182)
Vote 3 - Community And Social Services		815	1,306	659	659	776	776	848
Vote 4 - Financial Services		41,780	47,230	40,640	40,640	54,622	56,858	64,980
Vote 5 - Technical Services		59,315	30,716	98,862	98,862	79,265	104,428	117,866
Vote 6 - Traffic Services		2,459	1,018	1,690	1,690	1,471	1,618	1,780
Vote 7 - [NAME OF VOTE 7]		–	–	–	–	–	–	–
Vote 8 - [NAME OF VOTE 8]		–	–	–	–	–	–	–
Vote 9 - [NAME OF VOTE 9]		–	–	–	–	–	–	–
Vote 10 - [NAME OF VOTE 10]		–	–	–	–	–	–	–

Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-
<b>Total Revenue by Vote</b>	<b>2</b>	<b>104,356</b>	<b>80,360</b>	<b>141,953</b>	<b>141,953</b>	<b>138,723</b>	<b>165,274</b>	<b>187,122</b>
<b><u>Expenditure by Vote to be appropriated</u></b>	<b>1</b>							
Vote 1 - Executive And Council		8,150	8,695	8,651	8,651	8,361	8,814	9,263
Vote 2 - Corporate Services		3,649	5,651	7,576	7,576	11,581	11,752	12,695
Vote 3 - Community And Social Services		804	651	694	694	2,367	2,532	2,708
Vote 4 - Financial Services		12,229	27,015	28,189	28,189	25,685	27,920	31,688
Vote 5 - Technical Services		39,353	53,272	52,974	52,974	68,718	70,993	75,409
Vote 6 - Traffic Services		1,436	1,615	1,620	1,620	1,739	1,922	2,062
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-
<b>Total Expenditure by Vote</b>	<b>2</b>	<b>65,620</b>	<b>96,899</b>	<b>99,704</b>	<b>99,704</b>	<b>118,450</b>	<b>123,932</b>	<b>133,825</b>
<b>Surplus/(Deficit) for the year</b>	<b>2</b>	<b>38,737</b>	<b>(16,538)</b>	<b>42,249</b>	<b>42,249</b>	<b>20,273</b>	<b>41,341</b>	<b>53,297</b>

### **Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote) – mSCOA – Own Segment**

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per own segment: municipal vote (directorate). This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote.

**Table 15 MBRR Table A4 - Budgeted Financial Performance (revenue and expenditure)**

**NC086 Kgatelopele - Table A4 Budgeted Financial Performance (revenue and expenditure)**

Description	Ref	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>R thousand</b>	1							
<b>Revenue By Source</b>								
Property rates	2	14,966	14,966	14,966	8,012	19,990	21,989	27,643
Service charges - electricity revenue	2	28,967	29,525	32,839	15,221	34,763	36,640	35,806
Service charges - water revenue	2	7,415	7,688	7,676	5,109	9,045	9,949	10,486
Service charges - sanitation revenue	2	3,672	3,790	3,790	2,591	4,415	4,653	4,905
Service charges - refuse revenue	2	5,930	6,751	6,751	3,406	7,852	8,276	8,723
Service charges - other		—	—	—	—	—	—	—
Rental of facilities and equipment		404	423	580	55	623	664	670
Interest earned - external investments		526	898	898	752	975	780	788
Interest earned - outstanding debtors		284	275	147	68	398	786	827
Dividends received		—	—	—	—	—	—	—
Fines, penalties and forfeits		1,018	718	973	10	633	687	694
Licences and permits		124	—	50	490	457	503	508
Agency services		956	973	—	—	389	470	334
Transfers and subsidies		23,549	23,938	24,074	22,522	27,106	26,328	27,528
Other revenue	2	9,366	8,525	8,256	7,879	9,560	8,834	9,561
Gains on disposal of PPE		291	287	—	—	—	—	—
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>97,467</b>	<b>98,757</b>	<b>101,001</b>	<b>66,114</b>	<b>116,204</b>	<b>120,559</b>	<b>128,473</b>
<b>Expenditure By Type</b>								
Employee related costs	2	31,510	31,744	33,499	23,230	36,113	38,587	46,412
Remuneration of councillors		2,540	2,323	2,602	1,889	2,604	2,735	2,884
Debt impairment	3	5,774	5,774	5,774	—	5,832	6,146	7,376
Depreciation & asset impairment	2	10,276	10,276	10,276	—	11,096	10,421	10,693
Finance charges		—	805	805	—	813	488	502
Bulk purchases	2	23,190	22,089	22,089	15,458	26,649	28,088	27,149
Other materials	8	5,027	223	193	100	285	288	291
Contracted services		5,099	13,508	13,959	9,628	13,957	13,788	12,295
Transfers and subsidies		—	—	—	—	—	—	—
Other expenditure	4, 5	13,903	11,677	12,046	8,425	18,678	19,267	20,259
Loss on disposal of PPE		—	—	—	—	—	—	—
<b>Total Expenditure</b>		<b>97,319</b>	<b>98,420</b>	<b>101,243</b>	<b>58,729</b>	<b>116,026</b>	<b>119,806</b>	<b>127,860</b>
<b>Surplus/(Deficit)</b>		<b>148</b>	<b>337</b>	<b>(242)</b>	<b>7,384</b>	<b>178</b>	<b>753</b>	<b>613</b>
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)		15,675	50,659	50,659	26,840	22,686	49,505	59,839
Transfers and subsidies - capital (monetary allocations) (National / Provincial Departmental Agencies, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher	6	—	—	—	—	—	—	—
Transfers and subsidies - capital (in-kind - all)		—	—	—	—	—	—	—
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>		<b>15,823</b>	<b>50,996</b>	<b>50,416</b>	<b>34,225</b>	<b>22,864</b>	<b>50,258</b>	<b>60,452</b>
Taxation		—	—	—	—	—	—	—
<b>Surplus/(Deficit) after taxation</b>		<b>15,823</b>	<b>50,996</b>	<b>50,416</b>	<b>34,225</b>	<b>22,864</b>	<b>50,258</b>	<b>60,452</b>
Attributable to minorities		—	—	—	—	—	—	—
<b>Surplus/(Deficit) attributable to municipality</b>		<b>15,823</b>	<b>50,996</b>	<b>50,416</b>	<b>34,225</b>	<b>22,864</b>	<b>50,258</b>	<b>60,452</b>
Share of surplus/ (deficit) of associate	7	—	—	—	—	—	—	—
<b>Surplus/(Deficit) for the year</b>		<b>15,823</b>	<b>50,996</b>	<b>50,416</b>	<b>34,225</b>	<b>22,864</b>	<b>50,258</b>	<b>60,452</b>

## **Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)**

1. Total operating revenue was R 98,757 million in 2018/2019 and indicates an increase to R 116,204 million in 2019/20.
2. Revenue to be generated from property rates is R14,966 million in the 2018/19 financial year and increases to R 19,990 million by 2019/20 which represents 22% of the operating revenue base of the Municipality and therefore remains a significant funding source for the municipality. The new General Valuation roll will be implemented in the 2019/20 financial year.
3. Services charges relating to electricity, water, sanitation and refuse removal constitutes the biggest component of the revenue basket of the Municipality totalling R 47, 754 million for the 2018/19 financial year and indicates an increase to R 56,074 million by 2019/20. This is also a result of the change in budget presentation for free basic services, explained in this report. For the 2019/20 financial year services charges amount to 48% of the operating revenue base.
4. Transfers recognised – operating grants includes the local government equitable share and other operating grants from national and provincial government.
5. Bulk purchases have significantly increased over the years period escalating from R 22,089 million to R 26,649 million. These increases can be attributed to the increase of 13.07%.
6. The change in the trend for contracted services also relates to the reclassification of expenditure resulting from mSCOA implementation. Items such as audit committee sitting allowance, catering, mayoral activities, which was previously under general expenditure is now under contracted services.
7. Employee related costs and bulk purchases are the main cost drivers within the municipality and alternative operational gains and efficiencies will have to be identified to lessen the impact of wage and bulk tariff increases in future years.



**Table 16 MBRR Table A5 - Budgeted Capital Expenditure by vote, functional classification and funding source**

**NC086 Kgatelopele - Table A5 Budgeted Capital Expenditure by vote, functional classification and funding**

Vote Description	Ref	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>R thousand</b>	<b>1</b>							
<b>Capital expenditure - Vote</b>								
<b>Multi-year expenditure to be appropriated</b>	<b>2</b>							
Vote 1 - Executive And Council		-	-	-	-	-	-	-
Vote 2 - Corporate Services		-	-	-	-	-	-	-
Vote 3 - Community And Social Services		-	-	-	-	-	-	-
Vote 4 - Financial Services		700	700	700	4	900	-	-
Vote 5 - Technical Services		-	2,505	2,505	19,708	20,686	48,225	58,489
<b>Capital multi-year expenditure sub-total</b>	<b>7</b>	<b>700</b>	<b>3,205</b>	<b>3,205</b>	<b>19,712</b>	<b>21,586</b>	<b>48,225</b>	<b>58,489</b>
<b>Single-year expenditure to be appropriated</b>	<b>2</b>							
Vote 1 - Executive And Council		500	-	-	-	-	-	-
Vote 2 - Corporate Services		-	-	-	-	473	-	-
Vote 3 - Community And Social Services		-	-	-	-	-	-	-
Vote 4 - Financial Services		-	-	-	(24,880)	900	-	-
Vote 5 - Technical Services		16,075	48,153	48,153	5,120	2,600	1,280	1,350
Vote 6 - Traffic Services		-	-	-	-	-	-	-
<b>Capital single-year expenditure sub-total</b>		<b>16,575</b>	<b>48,153</b>	<b>48,153</b>	<b>(19,760)</b>	<b>3,973</b>	<b>1,280</b>	<b>1,350</b>
<b>Total Capital Expenditure - Vote</b>		<b>17,275</b>	<b>51,359</b>	<b>51,359</b>	<b>(47)</b>	<b>25,559</b>	<b>49,505</b>	<b>59,839</b>
<b>Capital Expenditure - Functional</b>								
<b>Governance and administration</b>		<b>700</b>	<b>700</b>	<b>700</b>	<b>4</b>	<b>3,028</b>	<b>-</b>	<b>-</b>
Executive and council		-	-	-	-	1,955	-	-
Finance and administration		700	700	700	4	1,073	-	-
Internal audit		-	-	-	-	-	-	-
<b>Community and public safety</b>		<b>400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Community and social services		-	-	-	-	-	-	-
Sport and recreation		400	-	-	-	-	-	-
Public safety		-	-	-	-	-	-	-
Housing		-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-
<b>Economic and environmental services</b>		<b>500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Planning and development		-	-	-	-	-	-	-
Road transport		500	-	-	-	-	-	-
Environmental protection		-	-	-	-	-	-	-
<b>Trading services</b>		<b>15,675</b>	<b>50,659</b>	<b>50,659</b>	<b>(52)</b>	<b>25,186</b>	<b>49,505</b>	<b>9,839</b>
Energy sources		2,700	2,700	2,700	1,330	2,000	1,280	1,350
Water management		5,000	5,000	5,000	(140)	12,644	40,000	-
Waste water management		7,975	40,453	40,453	-	-	-	-
Waste management		-	2,505	2,505	(1,242)	10,542	8,225	8,489
<b>Other</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Capital Expenditure - Functional</b>	<b>3</b>	<b>17,275</b>	<b>51,359</b>	<b>51,359</b>	<b>(47)</b>	<b>28,214</b>	<b>49,505</b>	<b>9,839</b>
<b>Funded by:</b>								
National Government		15,675	50,659	50,659	(52)	22,686	49,505	9,839
Provincial Government		-	-	-	-	-	-	-
District Municipality		-	-	-	-	-	-	-
Other transfers and grants		-	-	-	-	-	-	-
<b>Transfers recognised - capital</b>	<b>4</b>	<b>15,675</b>	<b>50,659</b>	<b>50,659</b>	<b>(52)</b>	<b>22,686</b>	<b>49,505</b>	<b>9,839</b>
<b>Public contributions &amp; donations</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Borrowing</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Internally generated funds</b>		<b>700</b>	<b>700</b>	<b>700</b>	<b>(2)</b>	<b>5,528</b>	<b>-</b>	<b>-</b>
<b>Total Capital Funding</b>	<b>7</b>	<b>16,375</b>	<b>51,359</b>	<b>51,359</b>	<b>(53)</b>	<b>28,214</b>	<b>49,505</b>	<b>9,839</b>

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by functional classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.

2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. The capital expenditure amounts to R 27,159 million in 2019/20. Due to our MIG allocation which normally less than the project value, our projects are commonly multi-year projects.
3. Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of the Municipality.
4. The capital programme is funded from national and provincial grants and transfers, public contributions and donations, borrowing and internally generated funds from previous year surpluses. For 2019/20, capital transfers totals R 22,686 million, internally generated funding totalling R 5,527 million. These funding sources are further discussed in detail in paragraph 2.6 (Overview of Budget Funding).

**Table 17 MBRR Table A6 - Budgeted Financial Position**

**NC086 Kgatelopele - Table A6 Budgeted Financial Position**

Description	Ref	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>R thousand</b>								
<b>ASSETS</b>								
<b>Current assets</b>								
Cash		1,468	(105)	(105)	32,674	3,171	3,171	3,171
Call investment deposits	1	314	1,154	—	(14,155)	11,220	11,220	11,220
Consumer debtors	1	15,670	2,330	—	2,882	21,725	21,725	21,725
Other debtors		248	—	—	1,440	325	668	1,012
Current portion of long-term receivables		—	—	—	—	—	—	—
Inventory	2	900	—	—	(27)	1,116	1,116	1,116
<b>Total current assets</b>		<b>18,599</b>	<b>3,379</b>	<b>(105)</b>	<b>22,814</b>	<b>37,558</b>	<b>37,900</b>	<b>38,244</b>
<b>Non current assets</b>								
Long-term receivables		—	—	—	—	—	—	—
Investments		—	—	—	—	—	—	—
Investment property		—	—	—	—	—	—	—
Investment in Associate		—	—	—	—	—	—	—
Property, plant and equipment	3	409	51,345	51,345	25,049	10,370	18,595	27,084
Agricultural		—	—	—	—	—	—	—
Biological		—	—	—	—	—	—	—
Intangible		383	—	—	—	1,189	1,189	1,189
Other non-current assets		875	—	—	—	—	—	—
<b>Total non current assets</b>		<b>1,667</b>	<b>51,345</b>	<b>51,345</b>	<b>25,049</b>	<b>11,559</b>	<b>19,784</b>	<b>28,273</b>
<b>TOTAL ASSETS</b>		<b>20,267</b>	<b>54,724</b>	<b>51,240</b>	<b>47,863</b>	<b>49,116</b>	<b>57,684</b>	<b>66,517</b>
<b>LIABILITIES</b>								
<b>Current liabilities</b>								
Bank overdraft	1	—	—	—	—	—	—	—
Borrowing	4	—	—	—	—	—	—	—
Consumer deposits		—	—	—	(12)	149	149	149
Trade and other payables	4	—	—	—	17,002	5,417	5,417	5,417
Provisions		—	—	—	—	—	—	—
<b>Total current liabilities</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>16,990</b>	<b>5,567</b>	<b>5,567</b>	<b>5,567</b>
<b>Non current liabilities</b>								
Borrowing		—	—	—	—	—	—	—
Provisions		—	—	—	—	4,096	4,096	4,096
<b>Total non current liabilities</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,096</b>	<b>4,096</b>	<b>4,096</b>
<b>TOTAL LIABILITIES</b>		<b>—</b>	<b>—</b>	<b>—</b>	<b>16,990</b>	<b>9,662</b>	<b>9,662</b>	<b>9,662</b>
<b>NET ASSETS</b>	5	<b>20,267</b>	<b>54,724</b>	<b>51,240</b>	<b>30,873</b>	<b>39,454</b>	<b>48,022</b>	<b>56,855</b>
<b>COMMUNITY WEALTH/EQUITY</b>								
Accumulated Surplus/(Deficit)		—	—	—	3,047	39,354	39,354	39,354
Reserves	4	—	—	—	—	100	100	100
<b>TOTAL COMMUNITY WEALTH/EQUITY</b>	5	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,047</b>	<b>39,454</b>	<b>39,454</b>	<b>39,454</b>

### **Explanatory notes to Table A6 - Budgeted Financial Position**

1. Table A6 is consistent with international standards of good financial management practice and improves understanding for councillors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is largely aligned to GRAP1, which is generally aligned to the international version which presents Assets Less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table 19 is supported by an extensive table of notes providing a detailed analysis of the major components of a number of items, including:
  - Consumer debtors;
  - Property, plant and equipment;
  - Trade and other payables;
  - Provisions non-current;
  - Changes in net assets; and
  - Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition, the funding compliance assessment is informed directly by forecasting the statement of financial position.

**Table 18 MBRR Table A7 - Cash Backed Reserves/Accumulated Surplus Reconciliation**

**NC086 Kgatelopele - Table A7 Budgeted Cash Flows**

Description	Ref	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>R thousand</b>								
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>								
<b>Receipts</b>								
Property rates		–	11,252	11,252	7,684	22,846	24,075	25,308
Service charges		690	35,743	35,743	20,137	53,948	57,253	60,506
Other revenue		(900)	–	–	12,155	76,879	101,485	91,142
Government - operating	1	(3,586)	34,553	34,553	24,971	17,550	16,122	13,732
Government - capital	1	–	(50,659)	(50,659)	26,892	(12,644)	(40,000)	–
Interest		–	–	–	–	–	–	–
Dividends		–	–	–	–	–	–	–
<b>Payments</b>								
Suppliers and employees		80,848	84,388	84,388	58,729	(94,775)	(119,679)	(116,860)
Finance charges		–	805	805	–	(1,046)	(628)	(662)
Transfers and Grants	1	–	–	–	–	–	–	–
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>		<b>77,053</b>	<b>116,081</b>	<b>116,081</b>	<b>150,568</b>	<b>62,758</b>	<b>38,629</b>	<b>73,166</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
<b>Receipts</b>								
Proceeds on disposal of PPE		–	82	82	43	2,850	1,425	1,995
Decrease (Increase) in non-current debtors		–	–	–	–	–	–	–
Decrease (increase) other non-current receivables		–	–	–	–	–	–	–
Decrease (increase) in non-current investments		–	–	–	–	–	–	–
<b>Payments</b>								
Capital assets		17,275	51,359	51,359	(47)	(23,959)	(49,505)	(9,839)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>		<b>17,275</b>	<b>51,441</b>	<b>51,441</b>	<b>(4)</b>	<b>(21,109)</b>	<b>(48,080)</b>	<b>(7,844)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
<b>Receipts</b>								
Short term loans		–	–	–	–	–	–	–
Borrowing long term/refinancing		–	–	–	–	–	–	–
Increase (decrease) in consumer deposits		–	–	–	(12)	–	–	–
<b>Payments</b>								
Repayment of borrowing		–	–	–	–	–	–	–
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>(12)</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>		<b>94,328</b>	<b>167,522</b>	<b>167,522</b>	<b>150,552</b>	<b>41,649</b>	<b>(9,451)</b>	<b>65,322</b>
Cash/cash equivalents at the year begin:	2	–	–	–	–	–	41,649	32,198
Cash/cash equivalents at the year end:	2	<b>94,328</b>	<b>167,522</b>	<b>167,522</b>	<b>150,552</b>	<b>41,649</b>	<b>32,198</b>	<b>97,520</b>

**Table 19 Cash backed reserves/accumulated surplus reconciliation**

NC086 Kgatelopele - Table A8 Cash backed reserves/accumulated surplus reconciliation

Description	Ref	Current Year 2018/19				2019/20 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>R thousand</b>								
<b>Cash and investments available</b>								
Cash/cash equivalents at the year end	1	94,328	167,522	167,522	150,552	41,649	32,198	97,520
Other current investments > 90 days		(92,546)	(166,473)	(167,627)	(132,033)	(27,258)	(17,807)	(83,129)
Non current assets - Investments	1	–	–	–	–	–	–	–
<b>Cash and investments available:</b>		<b>1,782</b>	<b>1,049</b>	<b>(105)</b>	<b>18,518</b>	<b>14,391</b>	<b>14,391</b>	<b>14,391</b>
<b>Application of cash and investments</b>								
Unspent conditional transfers		–	–	–	13,530	3,500	3,500	3,500
Unspent borrowing		–	–	–	–	–	–	–
Statutory requirements	2	–	–	–	–	–	–	–
Other working capital requirements	3	46	(1,487)	–	(2,332)	(36,535)	(41,889)	(38,254)
Other provisions		–	–	–	–	–	–	–
Long term investments committed	4	–	–	–	–	–	–	–
Reserves to be backed by cash/investments	5	–	–	–	–	–	–	–
<b>Total Application of cash and investments:</b>		<b>46</b>	<b>(1,487)</b>	<b>–</b>	<b>11,198</b>	<b>(33,035)</b>	<b>(38,389)</b>	<b>(34,754)</b>
<b>Surplus(shortfall)</b>		<b>1,736</b>	<b>2,536</b>	<b>(105)</b>	<b>7,320</b>	<b>47,426</b>	<b>52,780</b>	<b>49,145</b>

## Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus

### Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of noncompliance with the MFMA requirements that the municipality's budget must be "funded".
4. As part of the budgeting and planning guidelines that informed the compilation of the 2019/20 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.
5. As can be seen the budget has been modelled to ensure that the budget is funded.

**Table 20 MBRR Table A9 - Asset Management**

**NC086 Kgatelopele - Table A9 Asset Management**

Description	Ref	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
R thousand							
<b>CAPITAL EXPENDITURE</b>							
<b><u>Total New Assets</u></b>	1	17,275	8,184	8,184	26,086	49,505	9,839
<i>Roads Infrastructure</i>		-	-	-	-	-	-
<i>Storm water Infrastructure</i>		-	-	-	-	-	-
<i>Electrical Infrastructure</i>		-	-	-	2,000	1,280	1,350
<i>Water Supply Infrastructure</i>		-	-	-	-	-	-
<i>Sanitation Infrastructure</i>		-	-	-	-	-	-
<i>Solid Waste Infrastructure</i>		-	4,784	4,784	8,042	8,225	8,489
<i>Rail Infrastructure</i>		-	-	-	-	-	-
<i>Coastal Infrastructure</i>		-	-	-	-	-	-
<i>Information and Communication Infrastructure</i>		-	-	-	-	-	-
<b>Infrastructure</b>		-	4,784	4,784	10,042	9,505	9,839
Community Facilities		-	-	-	-	-	-
Sport and Recreation Facilities		-	-	-	-	-	-
<b>Community Assets</b>		-	-	-	-	-	-
<b>Heritage Assets</b>		-	-	-	-	-	-
Revenue Generating		-	-	-	-	-	-
Non-revenue Generating		-	-	-	-	-	-
<b>Investment properties</b>		-	-	-	-	-	-
Operational Buildings		-	-	-	-	-	-
Housing		-	-	-	-	-	-
<b>Other Assets</b>		-	-	-	-	-	-
<b>Biological or Cultivated Assets</b>		-	-	-	-	-	-
Servitudes		-	-	-	-	-	-
Licences and Rights		-	-	-	-	-	-
<b>Intangible Assets</b>		-	-	-	-	-	-
<b>Computer Equipment</b>		-	-	-	-	-	-
<b>Furniture and Office Equipment</b>		700	700	700	900	-	-
<b>Machinery and Equipment</b>		-	-	-	-	-	-
<b>Transport Assets</b>		16,575	2,700	2,700	15,144	40,000	-
Land		-	-	-	-	-	-
<b>Zoo's, Marine and Non-biological Animals</b>		-	-	-	-	-	-
<b><u>Total Renewal of Existing Assets</u></b>	2	-	10,328	10,328	-	-	-
<i>Roads Infrastructure</i>		-	-	-	-	-	-
<i>Storm water Infrastructure</i>		-	-	-	-	-	-
<i>Electrical Infrastructure</i>		-	-	-	-	-	-
<i>Water Supply Infrastructure</i>		-	10,328	10,328	-	-	-
<i>Sanitation Infrastructure</i>		-	-	-	-	-	-
<i>Solid Waste Infrastructure</i>		-	-	-	-	-	-
<i>Rail Infrastructure</i>		-	-	-	-	-	-
<i>Coastal Infrastructure</i>		-	-	-	-	-	-
<i>Information and Communication Infrastructure</i>		-	-	-	-	-	-
<b>Infrastructure</b>		-	10,328	10,328	-	-	-
Community Facilities		-	-	-	-	-	-
Sport and Recreation Facilities		-	-	-	-	-	-
<b>Community Assets</b>		-	-	-	-	-	-
<b>Heritage Assets</b>		-	-	-	-	-	-
Revenue Generating		-	-	-	-	-	-
Non-revenue Generating		-	-	-	-	-	-

<b>Investment properties</b>						
Operational Buildings						
Housing						
<b>Other Assets</b>						
<b>Biological or Cultivated Assets</b>						
Servitudes						
Licences and Rights						
<b>Intangible Assets</b>						
<b>Computer Equipment</b>						
<b>Furniture and Office Equipment</b>						
<b>Machinery and Equipment</b>						
<b>Transport Assets</b>						
<b>Land</b>						
<b>Zoo's, Marine and Non-biological Animals</b>						
<b>Total Upgrading of Existing Assets</b>	6					
Roads Infrastructure						
Storm water Infrastructure						
Electrical Infrastructure						
Water Supply Infrastructure						
Sanitation Infrastructure						
Solid Waste Infrastructure						
Rail Infrastructure						
Coastal Infrastructure						
Information and Communication Infrastructure						
<b>Infrastructure</b>						
Community Facilities						
Sport and Recreation Facilities						
<b>Community Assets</b>						
<b>Heritage Assets</b>						
Revenue Generating						
Non-revenue Generating						
<b>Investment properties</b>						
Operational Buildings						
Housing						
<b>Other Assets</b>						
<b>Biological or Cultivated Assets</b>						
Servitudes						
Licences and Rights						
<b>Intangible Assets</b>						
<b>Computer Equipment</b>						
<b>Furniture and Office Equipment</b>						
<b>Machinery and Equipment</b>						
<b>Transport Assets</b>						
<b>Land</b>						
<b>Zoo's, Marine and Non-biological Animals</b>						
<b>Total Capital Expenditure</b>	4					
Roads Infrastructure						
Storm water Infrastructure						
Electrical Infrastructure						
Water Supply Infrastructure						
Sanitation Infrastructure						
Solid Waste Infrastructure						
Rail Infrastructure						
Coastal Infrastructure						
Information and Communication Infrastructure						
<b>Infrastructure</b>						
Community Facilities						

Sport and Recreation Facilities		-	-	-	-	-	-
<b>Community Assets</b>		-	-	-	-	-	-
<b>Heritage Assets</b>		-	-	-	-	-	-
Revenue Generating		-	-	-	-	-	-
Non-revenue Generating		-	-	-	-	-	-
<b>Investment properties</b>		-	-	-	-	-	-
Operational Buildings		-	-	-	2,128	-	-
Housing		-	-	-	-	-	-
<b>Other Assets</b>		-	-	-	2,128	-	-
<b>Biological or Cultivated Assets</b>		-	-	-	-	-	-
Servitudes		-	-	-	-	-	-
Licences and Rights		-	-	-	-	-	-
<b>Intangible Assets</b>		-	-	-	-	-	-
<b>Computer Equipment</b>		-	-	-	-	-	-
<b>Furniture and Office Equipment</b>		700	700	700	900	-	-
<b>Machinery and Equipment</b>		-	-	-	-	-	-
<b>Transport Assets</b>		16,575	2,700	2,700	15,144	40,000	-
Land		-	-	-	-	-	-
<b>Zoo's, Marine and Non-biological Animals</b>		-	-	-	-	-	-
<b>TOTAL CAPITAL EXPENDITURE - Asset class</b>		17,275	52,176	52,176	28,214	49,505	9,839
<b>ASSET REGISTER SUMMARY - PPE (WDV)</b>	5	409	52,162	52,162	28,214	49,505	9,839
<i>Roads Infrastructure</i>		-	-	-	-	-	-
<i>Storm water Infrastructure</i>		-	-	-	-	-	-
<i>Electrical Infrastructure</i>		-	2,700	2,700	2,000	1,280	1,350
<i>Water Supply Infrastructure</i>		-	5,828	5,828	12,644	40,000	-
<i>Sanitation Infrastructure</i>		-	38,164	38,164	-	-	-
<i>Solid Waste Infrastructure</i>		-	4,784	4,784	8,042	8,225	8,489
<i>Rail Infrastructure</i>		-	-	-	-	-	-
<i>Coastal Infrastructure</i>		-	-	-	-	-	-
<i>Information and Communication Infrastructure</i>		-	-	-	-	-	-
<b>Infrastructure</b>		-	51,476	51,476	22,686	49,505	9,839
<b>Community Assets</b>		-	-	-	1,655	-	-
<b>Heritage Assets</b>		-	-	-	-	-	-
<b>Investment properties</b>		-	-	-	-	-	-
<b>Other Assets</b>		-	-	-	473	-	-
<b>Biological or Cultivated Assets</b>		-	-	-	-	-	-
<b>Intangible Assets</b>		-	-	-	-	-	-
<b>Computer Equipment</b>		-	-	-	-	-	-
<b>Furniture and Office Equipment</b>		700	700	700	900	-	-
<b>Machinery and Equipment</b>		(291)	(14)	(14)	-	-	-
<b>Transport Assets</b>		-	-	-	2,500	-	-
Land		-	-	-	-	-	-
<b>Zoo's, Marine and Non-biological Animals</b>		-	-	-	-	-	-
<b>TOTAL ASSET REGISTER SUMMARY - PPE (WDV)</b>	5	409	52,162	52,162	28,214	49,505	9,839
<b>EXPENDITURE OTHER ITEMS</b>							
<u>Depreciation</u>	7	10,276	10,276	10,276	11,096	8,237	8,378
<u>Repairs and Maintenance by Asset Class</u>	3	-	-	-	-	-	-
<i>Roads Infrastructure</i>		-	-	-	-	-	-
<i>Storm water Infrastructure</i>		-	-	-	-	-	-
<i>Electrical Infrastructure</i>		-	-	-	-	-	-
<i>Water Supply Infrastructure</i>		-	-	-	-	-	-



<i>Sanitation Infrastructure</i>	-	-	-	-	-	-
<i>Solid Waste Infrastructure</i>	-	-	-	-	-	-
<i>Rail Infrastructure</i>	-	-	-	-	-	-
<i>Coastal Infrastructure</i>	-	-	-	-	-	-
<i>Information and Communication Infrastructure</i>	-	-	-	-	-	-
<b>Infrastructure</b>	-	-	-	-	-	-
Community Facilities	-	-	-	-	-	-
Sport and Recreation Facilities	-	-	-	-	-	-
<b>Community Assets</b>	-	-	-	-	-	-
<b>Heritage Assets</b>	-	-	-	-	-	-
Revenue Generating	-	-	-	-	-	-
Non-revenue Generating	-	-	-	-	-	-
<b>Investment properties</b>	-	-	-	-	-	-
Operational Buildings	-	-	-	-	-	-
Housing	-	-	-	-	-	-
<b>Other Assets</b>	-	-	-	-	-	-
<b>Biological or Cultivated Assets</b>	-	-	-	-	-	-
Servitudes	-	-	-	-	-	-
Licences and Rights	-	-	-	-	-	-
<b>Intangible Assets</b>	-	-	-	-	-	-
Computer Equipment	-	-	-	-	-	-
Furniture and Office Equipment	-	-	-	-	-	-
Machinery and Equipment	-	-	-	-	-	-
Transport Assets	-	-	-	-	-	-
Libraries	-	-	-	-	-	-
Zoo's, Marine and Non-biological Animals	-	-	-	-	-	-
<b>TOTAL EXPENDITURE OTHER ITEMS</b>	10,276	10,276	10,276	11,096	8,237	8,378

### Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal/upgrading of existing assets, as well as spending on repairs and maintenance by asset class.
2. The following graph provides an analysis between depreciation and operational repairs and maintenance over the MTREF

**Table 21 MBRR Table A10 - Basic Service Delivery Measurement**

Description	Ref	Current Year 2018/19			2019/20 Medium Term Revenue & Expenditure Framework		
		Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2019/20	Budget Year +1 2020/21	Budget Year +2 2021/22
<b>Cost of Free Basic Services provided - Formal Settlements (R'000)</b>	8						
Water (6 kilolitres per <b>indigent</b> household per month)		(840)	(840)	–	(883)	(931)	(981)
Sanitation (free sanitation service to <b>indigent households</b> )		(2,786)	(2,786)	–	(2,931)	(3,089)	(4,757)
Electricity/other energy (50kwh per <b>indigent</b> household per month)		(937)	(937)	(937)	(985)	(1,038)	(1,095)
Refuse (removed once a week for <b>indigent households</b> )		(2,379)	(2,378)	–	(2,503)	(2,638)	(2,780)
<b>Cost of Free Basic Services provided - Informal Formal Settlements (R'000)</b>		–	–	–	–	–	–
<b>Total cost of FBS provided</b>		<b>(6,941)</b>	<b>(6,940)</b>	<b>(937)</b>	<b>(7,302)</b>	<b>(7,697)</b>	<b>(9,614)</b>

### Explanatory notes to Table A10 - Basic Service Delivery Measurement

- Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
- Good progress is being made with the eradication of current services backlogs. Housing remains a challenge.
  - Electricity services – the current backlog has provisionally been eliminated.
- The budget provides for 1 500 households to be registered as indigent in 2019/20, and therefore entitled to receiving Free Basic Services. The number is set to increase over the MTREF, especially by poor people seeking economic opportunities.
- It is anticipated that the cost of these Free Basic Services will amount to R 7,302 million in 2019/20. This is covered by the municipality's equitable share allocation from national government.
- In addition to the Free Basic Services, other rates rebate also applies to households.

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## **PART 2 – SUPPORTING DOCUMENTATION**

### ***2.1 Overview of the annual budget process***

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Full-time Councillors, Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

*The primary aims of the Budget Steering Committee are to ensure:*

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

#### ***2.1.1 Budget Process Overview***

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2016) a time schedule that sets out the process to prepare the IDP and prepare the budget.

The Mayor tabled in Council the required IDP and budget time schedule on 28 August 2016.

Key dates applicable to the process were:

- 25 January 2019 - Council considered the 2018/2019 Mid-year Review;
- 27 March 2019 - Tabling in Council of the Final 2019/20 IDP, SDBIP and 2019/20 MTREF for public consultation;

*Round 1 of public participation*

<b>Date</b>	<b>Area</b>	<b>Venue</b>
26 September 2018	Kuilsville (Ward 3)	Kuilsville Community Hall
27 September 2018	Landbou Erwe (Ward 2)	Freeman Church
16 October 2018	Tlhakalatlou (Ward 1)	Tlhakalatlou Community Hall
04 October 2018	Lime Acres (Ward 4)	Shaleje PPC

Kgatelopele Municipality will then embark on the 2<sup>nd</sup> round of its community engagement in order to give feedback on the progress made towards the needs which were raised during the 1<sup>st</sup> round which were held in January. The 2<sup>nd</sup> round of community engagement are planned for the month of April 2019. The dates for the 2<sup>nd</sup> round of consultative meetings are planned as follows:

<b>DATE</b>	<b>WARD NUMBER</b>	<b>TIME</b>	<b>VENUE</b>
23 April 2019	Ward 4	17:00	Shaleje Hall PPC
24 April 2019	Ward 2	17:00	Landbou Erwe Freeman Church
25 April 2019	Ward 3	17:00	Kuilsville Community Hall
02 May 2019	Ward 1	17:00	Tlhakalatlou Community Hall

*IDP and Service Delivery and Budget Implementation Plan*

This is the first year of the new generation IDP (2017/2022) to be considered and adopted by Council in May 2019. The Final IDP process started in January 2018 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2018/19 MTREF. The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions.

Service Delivery and Budget Implementation Plan. The Process Plan applicable to the Final IDP cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans with key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP will be taken into a business and financial planning process leading up to the 2019/20 MTREF, based on the approved 2018/2019 MTREF, mid-year review and adjustments budget. The business planning process was subsequently refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2019/20 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2018/2019 Departmental Service Delivery and Budget. Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

#### Financial Modelling and Key Planning Drivers

As part of the compilation of the 2019/20 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2019/20 MTREF:

- Municipality growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate (trends, inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2018/2019 adjustments budget and performance against the SDBIP

- Cash Flow Management Strategy
- Debtor payment levels
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 91 were taken into consideration in the planning and prioritisation process.

#### *Community Consultation on the Final Budget*

The Final 2019/20 MTREF, was tabled in Council on 27 May 2019 and will be made available to the community as follows:

Copies of the document can be viewed:

- At the offices of all Area Managers
- All public libraries within the municipality
- Municipal website

All documents in the appropriate format (electronic and printed) will be provided to National Treasury and Provincial Treasury in accordance with section 23 of the MFMA, to provide an opportunity for comment.

A delegation of the municipality, consisting of the Mayor, Councillors, Municipal Manager, Chief Financial Officer and officials from the municipality, held public meetings for all the wards in the municipal area to present the Final budget to the community. Submissions received during the community consultation process and additional information regarding revenue and expenditure and capital projects will be considered by the Budget Steering Committee at a meeting to be held in May 2019 for the finalisation of the 2019/20 Budget. Comments from the community and the municipality's responses thereto will be included.

## **OVERVIEW OF ALIGNMENT OF ANNUAL BUDGET WITH IDP**

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realised through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five-year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery. Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality. It is important that the IDP developed by municipalities correlate with

National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area.

Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality strategically complies with the key national and provincial priorities. The aim of this new five-year IDP cycle is to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPis);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2015 Vision;
- National Spatial Development Perspective (NSDP);
- The National Priority Outcomes; and
- National Development Plan

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP but must also conduct its affairs in a manner which is consistent with its IDP.

The following table highlights the IDP's five strategic objectives for the 2019/20 MTREF and further planning refinements that have directly informed the compilation of the budget:

#### IDP Strategic Objectives

##### *SO, 1: To ensure the provision of sustainable basic services to our communities*

- Electricity: To provide all planned "households "with electricity energy connection and promote use of other alternative energy.
- Water & Sewer: Address the provision and maintenance of municipal service such as water and sewage removal.
- Roads & Storm water: Address the provision and maintenance of municipal services such as roads and storm water
- Housing: To facilitate the provision of sustainable human settlement, which promote human habitation.



*SO, 2: Conservation of the environment*

- Parks & Cemetery: Address the provision and maintenance of parks and cemeteries.
- Waste Removal: External provision, to ensure proper management of the service provider contracted to provide the service.

*SO, 3: To promote a conducive environment for economic development*

- Local Economic Development: To promote a conducive environment for enterprise support and development, and foster partnership that contributes to economic development.

*SO, 4: To ensure an effective and efficient financial viable municipality*

- Supply Chain Management: To ensure a credible process of procuring goods and service for the municipality.
- Expenditure: To ensure the timeous payment of all creditors within 30 days of the creditor's statement, as prescribed in Chapter 8 of the municipal Finance Management act no 56 of 2003.
- Revenue: To ensure the timeous distribution of accurate service accounts and ensure that all money owed to the municipality are collected within 30 days.
- Budget & Treasury: Ensuring that the municipality produces a credible budget and ensuring adherence to the budget structure.
- Asset Management: To ensure the safekeeping, of all municipal assets, and ensure proper management over all assets to obtain the maximum financial benefit from these assets.
- Financial Systems: Ensuring the effective efficient management of the financial system in order to maintain accurate financial information.

*SO, 5: Democratic and accountable government*

- Council: To ensure good and accountable governance, that promotes the objectives of local government as enshrined in the RSA Constitution, Chapter 7, Section 152.
- Portfolio Committees: To ensure effective and efficient Council operation and enable oversight role of Council.

- Ward Committees: To ensure effective community participation in the affairs of local government so as to deepen democracy.

*SO, 6: Municipal Transformation and Organisational Development*

- Risk Management: Is to be responsible for enterprise risk management and fraud prevention management within the Kgatelopele Municipality. This entails development of policies, strategy & processes, development of fraud prevention, facilitating and advising on risk management issues. While promoting a culture of risk management amongst managers.
- Internal Auditing: To provide independent, objective assurance and consulting services design to add value and improve Kgatelopele Municipality operations. Driven by the following values; honesty, integrity, professionalism, accountability, objectivity and empathy, while ensuring good governance.
- Integrated Development Plan: To ensure formulation/development of a credible and realistic IDP.
- Performance Management System: To ensure the implementation of performance management system and promote a performance orientated organizational culture.
- Communication & Media Relation: To enhance & promote the role of the municipality and its operations in its area of jurisdiction in ways that contribute to the process of deepening democracy by: promoting awareness of economic opportunities, improve the culture of service delivery in the public service, build & promote partnership through public participation and communicate policies & information.
- Council Secretariat: To ensure efficient and effective operation of Council, and the record keeping thereof.
- Human Resource: Promote organizational cohesion. Effective human resource development and performance development and employment equity.

- Administration: Key systems, processes and structures to support governance and operational efficiency
  - Housing: To provide sustainable human settlement suitable for human habitation.
  - Land: Development of erven as informed by the Spatial Development Framework
  - Library Services: Sufficient library service delivered to the community
  - Traffic Services: Efficient traffic service regarding vehicle registration, learner's licenses and law enforcement
  - Information Technology: Improved organizational stability and sustainability

In order to ensure integrated and focused service delivery between all spheres of government it was important for the Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

Provision of quality basic services and infrastructure which includes, amongst others:

- Provide electricity;
- Provide water;
- Provide sanitation;
- Provide waste removal;
- Provide housing;
- Provide roads and storm water;
- Provide municipality planning services; and
- Maintaining the infrastructure of the Municipality.

Economic growth and development that leads to sustainable job creation by:

- Ensuring there is a clear structural plan for the Municipality;
- Ensuring planning processes function in accordance with set timeframes;

- Facilitating the use of labour-intensive approaches in the delivery of services and the building of infrastructure.

Fight poverty and build clean, healthy, safe and sustainable communities:

- Effective implementation of the Indigent Policy;
- Extending waste removal services and ensuring effective municipality cleansing;
- Ensuring all waste water treatment works are operating optimally;
- Working with strategic partners such as SAPS to address crime;
- Ensuring safe working environments by effective enforcement of building and health regulations;
- Promote viable, sustainable communities through proper zoning; and
- Promote environmental sustainability by protecting wetlands and key open spaces.

Integrated Social Services for empowered and sustainable communities

- Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme

Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:

- Optimising effective community participation in the ward committee system; and
- Implementing Batho Pele in the revenue management strategy.

Promote sound governance through:

- Publishing the outcomes of all tender processes on the municipal website

Ensure financial sustainability through:

- Reviewing the use of contracted services
- Continuing to implement the infrastructure maintenance strategy and the repairs and maintenance plan

Optimal institutional transformation to ensure capacity to achieve set objectives

- Review of the organisational structure to optimize the use of personnel;

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipality. The five-year programme responds to the development challenges and opportunities faced by the Municipality by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

In addition to the five-year IDP, the Municipality undertakes an extensive planning and developmental strategy which primarily focuses on a longer-term horizon; 15 to 20 years for infrastructure planning. This process is aimed at influencing the development path to restructure current patterns of settlement, activity and access to resources in the Municipality so as to promote greater equity and enhanced opportunity. It provides direction to the Municipality's IDP, associated sectorial plans and strategies, and the allocation of resources of the Municipality and other service delivery partners.

This development strategy introduces important policy shifts which have further been translated into seven strategic focus areas/objectives as outlined below:

- Developing dormant areas;
- Enforcing hard development lines – so as to direct private investment;
- Maintaining existing urban areas;
- Strengthening key economic clusters;
- Building social cohesion;
- Strong developmental initiatives in relation to the municipal institution as a whole; and
- Sound financial fundamentals.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the new IDP of the 2017/2022 cycle, including:

- Strengthening the analysis and strategic planning processes of the Municipality;
- Initiating zonal planning processes that involve the communities in the analysis and planning processes. More emphasis was placed on area-based interventions, within the overall holistic framework;

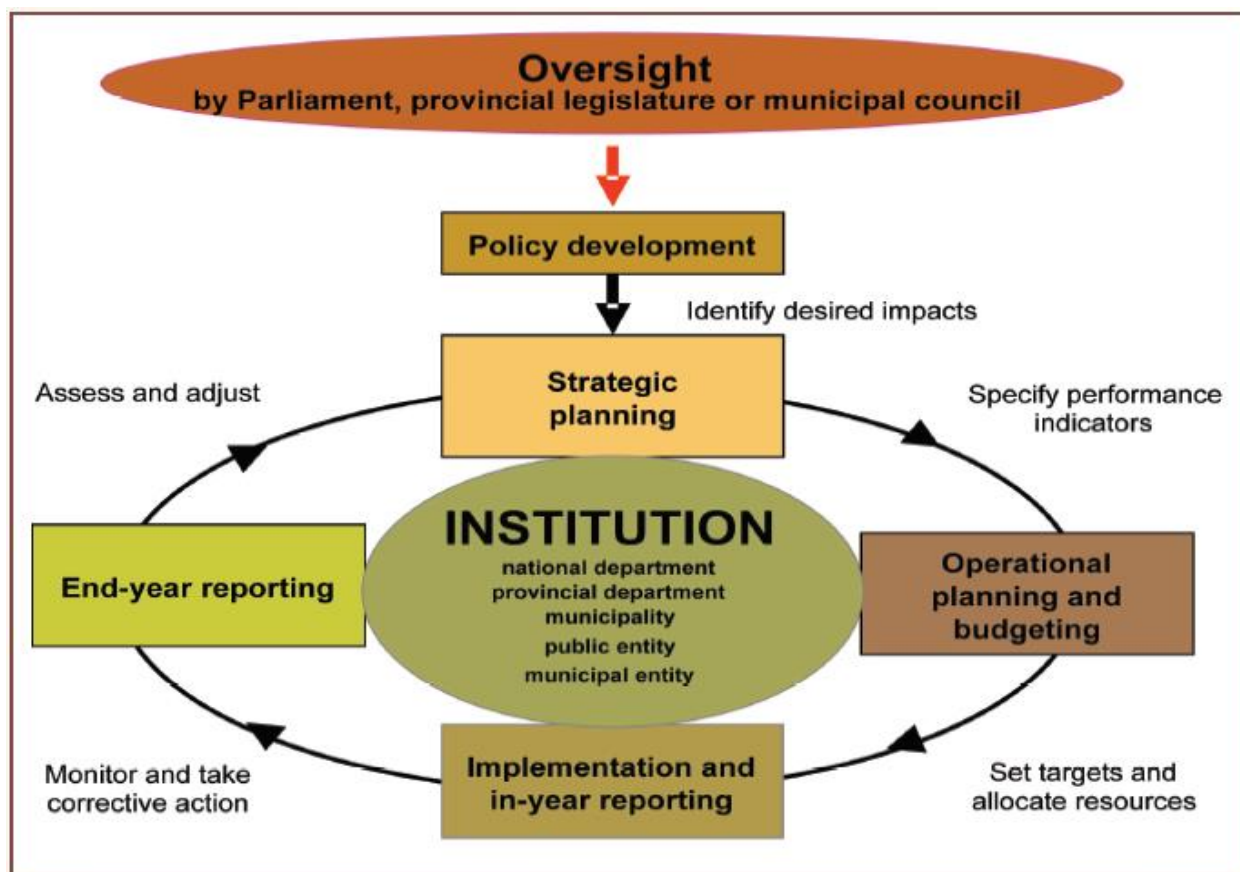
- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2019/20 MTREF has therefore been directly informed by the new Final five-year IDP process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

### **Measurable performance objectives and indicators**

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly at each quarter, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

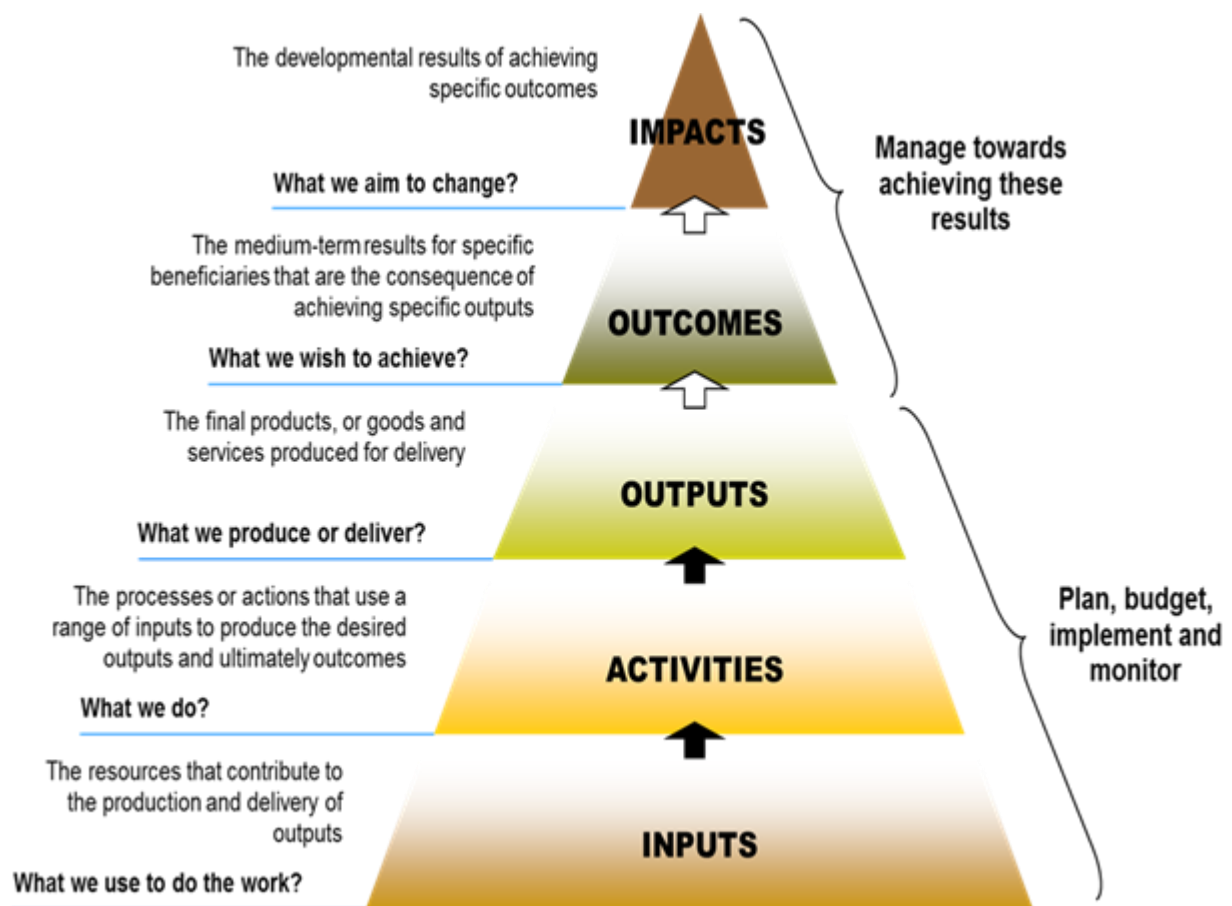


**Figure 5 Planning, budgeting and reporting cycle**

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the Framework of Managing Programme Performance Information issued by the National Treasury:



**Figure 6 Definition of performance information concepts**

## Performance indicators and benchmarks

### *Borrowing Management*

Capital expenditure in local government can be funded by capital grants, own-source revenue and long term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. As with all other municipalities, Kgatelopele's borrowing strategy is primarily informed by the affordability of debt repayments. The structure of the Municipality's debt portfolio is dominated by annuity loans. For the 2019/2020 financial year the municipality has no intension of



entering into any long term borrowings due affordability. The municipality also does not have any current long term loans that need to be serviced.

The following financial performance indicators have formed part of the compilation of the 2019/20 MTREF:

- *Capital charges to operating expenditure* is a measure of the cost of borrowing in relation to the operating expenditure. It can be seen that the cost of borrowing remains steady. While borrowing is considered a prudent financial instrument in financing capital infrastructure development, this indicator will have to be carefully monitored going forward.

In summary, various financial risks could have a negative impact on the future borrowing capacity of the municipality.

### **Indicators and ratios**

The key financial indicators and ratios mentioned below are disclosed in 'Supporting Table SA8: Performance indicators and benchmarks':

- Borrowing management
- Safety of capital
- Liquidity
- Debtors' and creditors' management
- Mix of expenditure types
- Mix of revenue sources
- Unaccounted for losses in respect of services rendered

Funding measure ratios are disclosed in 'Supporting Table SA10: Funding measurement'.

**Free Basic Services: basic social services package for indigent households**

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the municipality. Only registered indigents qualify for the free basic services.

For the 2019/20 financial year 1 500 registered indigents have been provided for in the budget with this figured increasing from the actual registered indigents of 2018/19. In terms of the Municipality's indigent policy registered households are entitled to 6kl free water, 50 kwh of electricity, sanitation service charge and free waste removal once a week, as well as a rebate on their property rates.

Further detail relating to the number of households receiving free basic services, the cost of free basic services, highest level of free basic services as well as the revenue cost associated with the free basic services is contained in Table 23 MBRR A10 (Basic Service Delivery Measurement).

Note that the number of households in informal areas that receive free services and the cost of these services (e.g. the provision of water through stand pipes, water tankers, etc) are not taken into account in the table noted above.

**Providing clean water and managing waste water**

The municipality is the Water Services Authority for the entire municipality in terms of the Water Services Act, 1997 and acts as water services provider. The municipality bulk water provides the service by making use of its own water sources, such as boreholes. An additional reservoir was concluded in the 2016/2017 financial year.

The Department of Water Affairs conducts an annual performance rating of water treatment works, presenting a Blue Drop or Green Drop award respectively to potable water treatment works and waste water treatment works that meet certain criteria of excellence. The municipality has blue drop water status.

Upgrading of the existing sewerage system is part of the multi-year project that started in the current financial year, to be concluded in the 2017/2018 financial, this will aid the municipality to meet the minimum Green Drop certification standards.

The following is briefly the main challenges facing the municipality in this regard:

- The infrastructure at most of the waste water treatment works is old and insufficient to treat the increased volumes of waste water to the necessary compliance standard;
- Shortage of skilled personnel makes proper operations and maintenance difficult;
- The municipality has almost reached its electricity capacity.

The following are some of the steps that have been taken to address these challenges:

- Infrastructure shortcomings are being addressed through the capital budget in terms of a 5-year upgrade plan through registered MIG projects;
- The filling of key personnel vacancies has commenced
- Project cost estimate has been received from Eskom for the increasing of the current capacity

## OVERVIEW OF BUDGET RELATED POLICIES

### *Overview of budget related-policies*

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

### *Budget Policy*

The budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the Municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

### *Virement Policy*

The Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the Municipality's system of delegations.

### *Tariff Policy*

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery.

Changes in the tariff policy was the exemption of churches from refuse charges. The ratio of agricultural use of land was aligned with the Property Tax Rates Act.

The following policies have also been subject to review:

- Indigent Policy;
- Travelling & Subsistence;

## OVERVIEW OF BUDGET ASSUMPTIONS

### External factors

The effects of recession are less evident than the same time two years ago. After a protracted standstill in interest rates, this has since increased. Upwards pressure is also evident in the inflation rate and the Rand continues to weaken against leading currencies. International oil prices are rising after a significant decrease over the previous months.

### *General inflation outlook and its impact on the municipal activities*

There are five key factors that have been taken into consideration in the compilation of the 2019/20

#### MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and fuel; and
- The increase in the cost of remuneration. Employee related costs comprise 36,7 per cent of total operating expenditure in the 2018/19 MTREF and therefore increases above inflation places a disproportionate upward pressure on the expenditure budget

### *Collection rate for revenue services*

The base assumption is that tariff and rating increases will increase at a rate linked to CPI over the medium term. It is also assumed that current economic conditions, and relative inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage (80 per cent) of annual billings. Cash flow is assumed to be 80 per cent of billings from an increased collection of arrear debt.

The Municipality has in place a fair but rigorous credit control policy. Furthermore, its policy on indigent support means that many households who would normally struggle to pay their accounts receive free or subsidised basic services thereby keeping them free of the burden of municipal debt

#### *Growth or decline in tax base of the municipality*

Debtors' revenue is assumed to increase at a rate that is influenced by the consumer debtors' collection rate, tariff/rate pricing, real growth rate of the Municipality, household formation growth rate and the poor household change rate.

The revised headline CPI forecasts from National Treasury for 2019/20, 2020/21 and 2021/22 are 5.2%, 5.4% and 5.4% respectively. The growth parameters apply to tariff increases for property rates, user and other charges raised by municipalities and municipal entities, to ensure that all spheres of government support the national macroeconomic policies. NT has communicated that any rate or tariff increase above CPI must be fully communicated to the community.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition, the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' mainly limits consumption to the level of free basic services.

#### *Salary increases*

The new collective agreement regarding salaries/wages has not been signed for the 1<sup>st</sup> July 2019. CPI plus 1% is being used to project the increment for salaries.

#### *Impact of national, provincial and local policies*

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

#### *Ability of the municipality to spend and deliver on the programmes*

It is estimated that a spending rate of at least 80 per cent could be achieved on operating expenditure and 100 per cent on the capital programme for the 2019/20 MTREF.

## **OVERVIEW OF BUDGET FUNDING**

### **Funding the Budget**

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows. Refer to Section 4, 'Table A8: Cash backed reserves/accumulated surplus reconciliation' and Annexure 2, 'Supporting Table SA10: Funding measurement'.

### *Fiscal Overview of Kgatelopele Municipality*

Kgatelopele Municipality has over recent years facing cash-flow constraints and being grant depended. The municipality has also strived to have a high level of compliance with the Municipal Finance Management Act and other legislation directly affecting financial management. Kgatelopele has received a disclaimer audit report in the 2017/2018 financial year. Kgatelopele Municipality is on the pathway to meet the deadline for implementing National Treasury's MSCOA Chart of Accounts effective 1 July 2017 and will be amongst other municipalities in South Africa to do so.

The table below is a breakdown of the operating revenue A4

**Table 22 MBRR SA23 - Salaries, allowances and benefits (political office bearers/councillors/senior managers)**



## **MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW**

**Table 23 MBRR SA25 - Budgeted monthly revenue and expenditure**

**Table 24 MBRR SA26 - Budgeted monthly revenue and expenditure (municipal vote)**

**Table 25 MBRR SA27 - Budgeted monthly revenue and expenditure (functional classification)**

**Table 26 MBRR SA29 - Budgeted monthly capital expenditure (functional classification)**

**Table 27 MBRR SA30 - Budgeted monthly cash flow**

### **Final Annual budgets and SDBIP**

The Final SDBIP will be tabled as a separate item at the Council meeting held on 27 March 2019.

### **Capital Expenditure Details**

Capital details are shown in Annexure 1 and 2 on following tables:

- 'Main Table A5: Capex (capital expenditure)'
- Main Table A9: Asset Management (capital expenditure, Asset Register, Depreciation, and R&M)'
- 'Supporting Table SA6: Reconciliation of IDP strategic objectives and budget (capital expenditure)'
- 'Supporting Table SA28: Monthly Capital Expenditure by Municipal Vote (capital expenditure)'
- 'Supporting Table SA29: Monthly Capital Expenditure by GFS and Funding Source (capital expenditure)'
- 'Supporting Table SA34a: Capital expenditure on new assets by asset class'

- 'Supporting Table SA34b: Capital expenditure on the renewal of existing assets by asset class'
- 'Supporting Table SA36: Detailed capital budget'

## LEGISLATION COMPLIANCE STATUS

The disclosure on legislation compliance must provide a brief summary of the status of the implementation of legislation applicable to municipalities, including progress made or delays experienced in implementation.

### *Municipal Finance Management Act - No 56 of 2003*

The MFMA became effective on 1st July 2004. It covers all aspects of municipal finance including budgeting, supply chain management and financial reporting.

### *The MFMA and the budget*

The following explains the budgeting process in terms of the requirements in the MFMA. It is based on National Treasury's guide to the MFMA. The MFMA requires a Council to adopt three-year capital and operating budgets that take into account, and are linked to, the municipality's current and future development priorities and other finance-related policies (such as those relating to free basic service provision).

These budgets must clearly set out revenue by source and expenditure by vote over three years and must be accompanied by performance objectives for revenue and expenditure, a cash flow statement and any particulars on borrowings, investments, municipal entities, service delivery agreements, grant allocations and details of employment costs.

The budget may be funded only from reasonable estimates of revenue and cash-backed deficit funds from the previous year and borrowings (the latter for capital items only).

### *Other Legislation*

In addition to the MFMA, the following legislation also influences Municipality budgeting;

### The Division of Revenue Act and Provincial Budget Announcements

Three year national allocations to local government are published per municipality each year in the Division of Revenue Act. The Act places duties on municipalities in addition to the requirements of the MFMA, specifically with regard to reporting obligations. Allocations to the Municipality from Provincial Government are announced and published in the Provincial budget.

Section 18 of the MFMA states, “annual budgets may only be funded from reasonably anticipated revenues to be collected”. The provision in the budget for allocations from National and Provincial Government should reflect the allocations announced in the DORA or in the relevant Provincial Gazette.

### The Municipal Systems Act - No 32 of 2000 and Municipal Systems Amendment Act no 44 of 2003

One of the key objectives of the Municipal Systems Act is to ensure financially and economically viable communities. The requirements of the Act link closely to those of the MFMA. In particular, the following requirements need to be taken into consideration in the budgeting process;

- Chapters 4 and 5 relating to community participation and the requirements for the Integrated Development Planning process.
- Chapter 6 relates to performance management which links with the requirements for the budget to contain measurable performance objectives and quarterly performance targets in the Service Delivery and Budget Implementation Plan.
- Chapter 8 relates to the requirement to produce a tariff policy. Section 20 – Other supporting documents.

## **Other supporting documents**

Various supporting documents are attached to enable the reader a fuller understanding of the various processes involved. These are the following:

### **Annexure 1 – 2019-2020 MTREF Main Budget Tables version 6.3**

Tables A1 to A10

### **Annexure 2 – 2019-2020 MTREF Supporting Budget Tables version 6.3**

Supporting Tables SA1 to SA37

### **Annexure 3 – Three prior years outcome and current year main Supporting Budget Tables**

### **Annexure 4 –2019/2020 NT Circular and guidelines**

Circular 82, 91

### **Annexure 5 – Tariffs\*, Charges and Fees for 2019/2020**

#### **Annexure 5 – Policies**

- Tariff

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